SERVICE CORPORATION INTERNATIONAL
Form 424B3
July 11, 2007

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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-143924

PROSPECTUS

Service Corporation International

Offer to Exchange
Registered 6.75% Senior Notes due 2015
Registered 7.50% Senior Notes due 2027
for
All Outstanding 6.75% Senior Notes due 2015 issued on April 9, 2007
All Outstanding 7.50% Senior Notes due 2027 issued on April 9, 2007
($400,000,000 aggregate principal amount outstanding)

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, all of our outstanding 6.75% Senior Notes due 2015 issued on April 9, 2007 for our registered 6.75% Senior Notes due 2015, and all of our outstanding 7.50% Senior Notes due 2027 issued on April 9, 2007 for our registered 7.50% Senior Notes due 2027. In this prospectus, we will call the original 6.75% Senior Notes due 2015 the Old 2015 Notes, and we will call the original 7.50% Senior Notes due 2027 the Old 2027 Notes. The Old 2015 Notes and the Old 2027 Notes will collectively be referred to as the Old Notes. Additionally, in this prospectus, we will call the registered 6.75% Senior Notes due 2015 the New 2015 Notes, and we will call the registered 7.50% Senior Notes due 2027 the New 2027 Notes. The New 2015 Notes and the New 2027 Notes will collectively be referred to as the New Notes. The Old Notes and New Notes are collectively referred to in this prospectus as the notes. The Old 2015 Notes and the New 2015 notes are collectively referred to in this prospectus as the 2015 Notes. The Old 2027 Notes and New 2027 Notes are collectively referred to as the 2027 Notes.

The Exchange Offer

The exchange offer expires at 5:00 p.m., New York City time, on August 8, 2007, unless extended.

The exchange offer is not conditioned upon a minimum aggregate principal amount of Old Notes being tendered.

All outstanding Old Notes validly tendered and not withdrawn will be exchanged.

The exchange offer is not subject to any condition other than that the exchange offer not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission.

We will not receive any cash proceeds from the exchange offer.

The New Notes

The terms of the New Notes to be issued in the exchange offer are substantially identical to the Old Notes, except that we have registered the New Notes with the Securities and Exchange Commission. In addition, the New Notes will not be subject to certain transfer restrictions.

Interest on the New 2015 Notes will be paid at the rate of 6.75% per annum, semi-annually in arrears on April 1 and October 1, commencing October 1, 2007.

Interest on the New 2027 Notes will be paid at the rate of 7.50% per annum, semi-annually in arrears on April 1 and October 1, commencing October 1, 2007.

The New Notes will not be listed on any securities exchange or for quotation through any automated dealer quotation system.

You should carefully consider the risk factors beginning on page 12 of this prospectus before participating in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Each broker-dealer that receives New Notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. See Plan of Distribution.

The date of this prospectus is July 11, 2007.

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Until August 21, 2007, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unused allotments or subscriptions.

This prospectus incorporates important business and financial information about us that is not included in or delivered with the document. You may obtain this information, at no charge, by contacting us at the address or telephone number set forth below.

We have filed with the SEC a registration statement on Form S-4 under the Securities Act to register the notes offered by this prospectus. The registration statement contains additional information about us and the notes. We strongly encourage you to read carefully the registration statement and the exhibits and schedules thereto.

You can obtain the additional information incorporated into this prospectus or otherwise included in the registration statement through our website at *www.sci-corp.com* or by requesting it in writing or by telephone from us at the following address:

Service Corporation International
1929 Allen Parkway
Houston, Texas 77019
Attention: Secretary
Telephone No: (713) 522-5141

To obtain timely delivery of any requested information, you must request the information no later than five business days before you make your investment decision. Please make any such requests on or before August 1, 2007. See Where You Can Find More Information for more information about these matters.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Commission under the Securities Exchange Act of 1934. You may read and copy this information at the Commission s public reference room, 100 F Street, N.E., Washington, D.C. 20549. For information on the operation of the Public Reference Room, you may call the Commission at 1-800-SEC-0330. The information we file with the Commission is also available to the public from the Commission s website at http://www.sec.gov. You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange, Inc., located at 20 Broad Street, New York, New York 10005. In addition, you can obtain certain documents, including those filed with the Commission, through our website at *www.sci-corp.com*. Information contained on our website or any other website is not incorporated into this prospectus and does not constitute a part of this prospectus.

We incorporate by reference information into this prospectus, which means that we disclose important information to you by referring you to another document filed separately with the Commission. This important information is not included in or delivered with this prospectus. The information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by information contained directly in this prospectus. The documents listed below and incorporated by reference into this prospectus contain important information about us and our financial condition:

Annual Report on Form 10-K for the fiscal year ended December 31, 2006;

Quarterly Report on Form 10-Q for the quarter ended March 31, 2007;

Proxy Statement in connection with the 2007 Annual Meeting of Shareholders filed on April 6, 2007; and

Current Reports on Form 8-K or Form 8-K/A filed on February 12, 2007; March 27, 2007; March 30, 2007; April 10, 2007, May 8, 2007 and June 20, 2007.

All documents filed by us with the Commission from the date of this prospectus until the completion of the exchange offer shall also be deemed to be incorporated herein by reference. We are not incorporating any documents or information deemed to have been furnished and not filed in accordance with the Commission s rules and regulations.

You may obtain all or any of the documents referred to above from us free of charge by requesting them in writing or by telephone from us at the following address:

Service Corporation International
1929 Allen Parkway
Houston, Texas 77019
Attention: Secretary
Telephone No.: (713) 522-5141

To obtain timely delivery of any requested information, you must request the information no later than five business days before you make your investment decision. Please make any such requests on or before August 1, 2007.

We have not authorized anyone to give any information or make any representation that differs from, or adds to, the information in this document or in our documents that are publicly filed with the Commission. Therefore, if anyone does give you different or additional information, you should not rely on it.

If you are in a jurisdiction where it is unlawful to offer to exchange or sell, or to ask for offers to exchange or buy, the securities offered by this document, or if you are a person to whom it is unlawful to direct these activities, then the offer presented by this document does not extend to you.

The information contained in this document speaks only as of its date unless the information specifically indicates that another date applies.

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PROSPECTUS SUMMARY

This summary highlights selected information appearing in other sections of, or incorporated by reference in, this prospectus. It is not complete and does not contain all the information that you should consider before exchanging Old Notes for New Notes. You should carefully read this prospectus and the documents incorporated by reference to understand fully the terms of the exchange offer, as well as the tax and other considerations that may be important to you. You should pay special attention to the Risk Factors section beginning on page 12 of this prospectus, as well as the section entitled Cautionary Statement Regarding Forward-Looking Statements beginning on page 18 of this prospectus. You should rely only on the information contained or incorporated by reference in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. The information in this document may only be accurate on the date of this document. For purposes of this prospectus, unless the context requires or as otherwise indicated, when we refer to SCI, the Company, us, we, our, or ours, we are describing Service Corporation International, together with its subsidiaries.

Our Business

We are North America s leading provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. At March 31, 2007, we operated 1,570 funeral service locations and 447 cemeteries, (including 232 combination locations) in North America, which are geographically diversified across 45 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. Our funeral segment also includes the operations of Kenyon International Emergency Services, a subsidiary that specializes in providing disaster management services in mass fatality incidents as well as training, planning, and crisis communications consulting services, and the operations of 13 funeral homes in Germany that we intend to exit when economic values and conditions are conducive to a sale.

As part of our strategy to enhance our position as North America s premier funeral and cemetery provider, we acquired Alderwoods Group, Inc. (Alderwoods) for $20.00 per share in cash in November 2006. The purchase price of $1.2 billion includes the refinancing of $357.7 million and the assumption of $2.2 million of Alderwoods debt. Alderwoods properties, which include 578 funeral service locations and 70 cemeteries (including 63 combination locations), have been substantially integrated into our operations at December 31, 2006. These properties are operated in the same manner as our incumbent properties, under our leadership, and are reported in the appropriate reporting segment (funeral or cemetery) in our consolidated financial statements.

Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria and related businesses. We provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles, and preparation and embalming services. Funeral related merchandise, including caskets, burial vaults, cremation receptacles, flowers and other ancillary products and services, is sold at funeral service locations. Our cemeteries provide cemetery property interment rights, including mausoleum spaces, lots, and lawn crypts, and sell cemetery related merchandise and services, including stone and bronze memorials, burial vaults, casket and cremation memorialization products, merchandise installations, and burial openings and closings. We also sell preneed funeral and cemetery preneed products and services whereby a customer contractually agrees to the terms of certain products and services to be delivered and performed in the future.

Our operations in the United States and Canada are organized into 37 major markets and 45 middle markets (including eight Hispana markets). Each market is led by a market director with responsibility for funeral and/or cemetery operations and preneed sales. Within each market, the funeral homes and cemeteries share common resources such as personnel, preparation services, and vehicles. There are four market support centers in North America to assist market directors with financial, administrative, pricing, and human resource needs. These support centers are located in Houston, Miami, New York, and Los

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Angeles. The primary functions of the support centers are to help facilitate the execution of corporate strategies, coordinate communication between the field and corporate offices, and serve as liaisons for the implementation of policies and procedures.

Our Competitive Strengths

Industry leader. We believe that our estimated 14% North America share, based on 2005 industry revenues, is approximately five times that of our next largest North American competitor and more than twice that of the estimated 6% combined share of the remaining three publicly traded deathcare companies. We believe that our size provides us the benefits of standardized training, industry best practices and efficiencies of scale.

Geographic reach. Our combined network allows us to serve a broad population base with more than 1,900 funeral and cemetery locations diversified over 45 states, eight Canadian provinces, the District of Columbia and Puerto Rico. We believe our scale differentiates us from our competition by allowing us to implement a national brand strategy and to pursue strategic affinity partnerships with national groups that can influence their members choice of deathcare provider. For example, our strategic affinity partnerships today include the Veterans of Foreign Wars and Ladies Auxiliary, whose combined membership exceeds two million. We believe that our extensive national network enhances purchasing scale and provides us with an advantage in selling preneed funeral and cemetery products and services by allowing us to offer our customers the ability to transfer their preneed contracts to any of the providers in our network.

National brand. In 2000, SCI introduced the first coast-to-coast funeral service brand in North America, Dignity Memorial®. We believe that a national brand name is increasingly important as North American consumers continue to become more geographically mobile. We believe that consumers are less likely now than they have been historically to live in the same community as their parents and grandparents or to know a local funeral director. By building favorable associations with the Dignity Memorial® brand through funeral services, advertising and community outreach programs we strive to create an image of consistency, dependability and excellence that makes consumers more likely to choose our providers. The Alderwoods acquisition provides additional opportunities for us to expand the Dignity Memorial® brand. In addition, we are currently developing a second brand, Funeraria del Angel™, to serve North America s growing Hispanic population.

Innovative offerings. Using our Dignity Memorial® brand, we augment our range of traditional products and services with more contemporary and comprehensive offerings. In addition to a wide range of funeral, memorial, burial and cremation options, we offer assistance with many of the legal and administrative details that burden customers at times of loss. We also offer grief counseling for survivors and a bereavement travel program, which obtains special rates on airfare, car rentals and hotel accommodations for family and friends traveling from out of town to attend services, and an internet memorialization. In addition, we offer packaged plans for funerals and cremations that are designed to simplify customer decision-making. Since our packaged plans were introduced in 2004, they have achieved consistently high customer satisfaction ratings.

Reputation and service excellence. We believe that we have established a strong reputation for consistency and service excellence, which sets us apart from many of our competitors, serves as a key advantage to attracting customers and enhances our standing as an employer of choice within the industry. Continuing our commitment to excellence, in 2004 we established Dignity University™, a virtual school for SCI employees at all levels. It offers a comprehensive curriculum of professional development and ethics training that is designed to help employees upgrade skills, advance their careers and implement ethical standards at every level of performance. We believe that the acquisition of Alderwoods will allow us to expand and build our reputation for service excellence.

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Our Strategies for Growth

In recent years, we have strengthened our balance sheet, lowered our cost structure, introduced more efficient systems and processes and strengthened our management team. We believe these improvements, together with our acquisition of Alderwoods, present us with significant opportunities to achieve future growth. Our principal strategies are as follows:

Approach the business by customer preference. We believe customer attitudes and preferences are essential to our business. We are replacing the industry s traditional one-size-fits-all service approach with a flexible operating and marketing strategy that categorizes customers according to personal needs and preferences. Using this new approach, we are tailoring our product and service offerings based on four variables:

quality and prestige,

religious and ethnic customs,

convenience and location, and

price.

By identifying customers based on these variables, we can focus our resources on the most profitable customer categories and improve our marketing effectiveness. We continue to refine our pricing, product and marketing strategies to support this approach.

Consistent with this strategy, we have begun to analyze existing business relationships to determine whether they align with our strategic goals. As a result, we made certain local business decisions to exit unprofitable business relationships and activities in 2005 and 2006, which resulted in an initial decrease in the number of total funeral services performed. However, we also experienced significant improvements in both average revenue per funeral service and gross margins. We expect these improvements to continue into the future as we redeploy resources to more profitable areas. We continue to analyze our existing operations, including those newly acquired in the Alderwoods acquisition, and may exit certain business relationships or activities that do not fit our customer segmentation strategy.

Realign pricing to reflect current market environment. We, along with our competitors in the deathcare industry, have historically generated most of our profits from the sale of traditional products (including caskets, vaults, and markers), while placing less emphasis on the services involved in funeral and burial preparation. However, due to increased customer preference for comprehensive and personalized deathcare services, as well as increased competition from retail outlets (including on-line retailers) for the sale of traditional products, we have realigned our pricing strategy from product to service offerings in order to focus on services that are most valued by customers. Our initial results from the realignment strategy have been favorable based on increases in the overall average revenue per funeral service performed. We are currently evaluating the pricing of those locations acquired from Alderwoods and expect to make adjustments in the future to similarly align the pricing strategy for these locations as well.

Drive operating discipline and take advantage of our scale. Although we have already made substantial improvements in our infrastructure, we believe we can continue to achieve operating improvements through centralization and standardization of processes for staffing, central care, fleet management and cemetery maintenance. The acquisition of Alderwoods provides further opportunities for synergies and operating efficiencies, which will allow us to utilize our scale and increase profitability. We are developing clear, yet flexible, operating standards that will be used as benchmarks for productivity in these areas. In conjunction with these standards, we will develop and track shared best practices to support higher productivity. We also intend to continue to capitalize on our nationwide network of properties by pursuing strategic affinity partnerships. Over the longer term, we believe these relationships can be important to potential customers in their funeral home selection process.

Manage and grow the footprint. We are beginning to manage our network of business locations by positioning each business location to support the preferences of its local customer base while monitoring

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each market for changing demographics and competitive dynamics. We will primarily target customers who value quality and prestige or adhere to specific religious or ethnic customs. In addition, we expect to pursue selective business expansion through construction or targeted acquisitions of cemeteries and funeral homes with a focus on the highest return customer categories. In particular, we will focus cemetery expansion efforts on large cemeteries that are or may be combined with funeral home operations, which would allow facility, personnel, and equipment costs to be shared between the funeral service location and the cemetery.

Other Developments

On March 23, 2007, we commenced cash tender offers to purchase any and all of the outstanding principal amount of our 6.50% Notes due 2008 and 7.70% Notes due 2009. At the end of the early participation period, we had received tenders from holders of approximately $149.1 million aggregate principal amount of our 6.50% Notes and approximately $173.8 million aggregate principal amount of our 7.70% Notes. We received additional tenders of approximately $0.7 million on both notes at the end of the offer period. The offers expired on April 20, 2007.

SCI was incorporated in Texas in July of 1962. Our principal corporate offices are located at 1929 Allen Parkway, Houston, Texas 77019 and our telephone number is (713) 522-5141. Our website is http://www.sci-corp.com.

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Summary of the Terms of the Exchange Offer

The Exchange Offer	We are offering to exchange up to $400,000,000 aggregate principal amount of the New Notes for up to $400,000,000 aggregate principal amount of the Old Notes. Old Notes may be exchanged only in $1,000 increments. New Notes will be issued only in minimum denominations of $1,000 and integral multiples of $1,000. The terms of the New 2015 Notes are identical in all material respects to the Old 2015 Notes, and the terms of the New 2027 Notes are identical in all material respects to the Old 2027 Notes, except that the New Notes will not contain terms with respect to transfer restrictions, registration rights and payments of additional interest that relate to the Old Notes. The New Notes and the Old Notes will be governed by the same indenture, dated February 1, 1993.
Registration Rights Agreement	We issued an aggregate of $400,000,000 of the Old Notes on April 9, 2007 to Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, J.P. Morgan Securities, Inc., Lehman Brothers Inc. and Raymond James & Associates, Inc., the initial purchasers, under a purchase agreement dated March 28, 2007. Pursuant to the purchase agreement, we and the initial purchasers entered into two separate registration rights agreements relating to the Old Notes, pursuant to which we agreed to use our best efforts to file and cause to be effective this exchange offer registration statement with the Commission with respect to a registered offer to exchange the Old Notes for the New Notes. We agreed to consummate the exchange offer on or before the date that is 210 days after the original issue date of the Old Notes. In the event we fail to fulfill our obligations under the registration rights agreements, additional interest would accrue on the Old Notes at an annual rate of 0.25% for the first 90 days, increasing by an additional 0.25% for each subsequent 90-day period up to a maximum additional annual rate of 1.00%. See Exchange Offer and Registration Rights.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on August 8, 2007, unless we extend the exchange offer. See The Exchange Offer Expiration Date; Extensions; Termination; Amendments.
Conditions to the Exchange Offer	The exchange offer is not subject to any conditions other than that it does not violate applicable law or any applicable interpretation of the staff of the Commission.
Procedures for Tendering Old Notes	If you wish to accept the exchange offer, sign and date the letter of transmittal that was delivered with this prospectus in accordance with the instructions, and deliver the letter of transmittal, along with the Old Notes and any other required documentation, to the exchange agent. Alternatively, you can tender your outstanding Old Notes by following the procedures for book-entry transfer, as described in this prospectus. By executing the letter of transmittal or by transmitting an agent s

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	message in lieu thereof, you will represent to us that, among other things: the New Notes you receive will be acquired in the ordinary course of your business; you are not participating, and you have no arrangement with any person or entity to participate, in the distribution of the New Notes; you are not our affiliate, as defined in Rule 405 under the Securities Act, or a broker-dealer tendering Old Notes acquired directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act; and if you are not a broker-dealer, that you are not engaged in and do not intend to engage in the distribution of the New Notes.
Special Procedures for Beneficial Owners	If you are a beneficial owner whose Old Notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and wish to tender such Old Notes in the exchange offer, please contact the registered holder as soon as possible and instruct them to tender on your behalf and comply with our instructions set forth elsewhere in this prospectus.
Guaranteed Delivery Procedures	If you wish to tender your Old Notes, you may, in certain instances, do so according to the guaranteed delivery procedures set forth elsewhere in this prospectus under The Exchange Offer Procedures for Tendering Old Notes Guaranteed Delivery.
Effect of Not Tendering	Old Notes that are not tendered or that are tendered but not accepted will, following the completion of the exchange offer, continue to be subject to the existing restrictions upon transfer thereof. Old 2015 Notes that are not tendered will bear interest at a rate of 6.75% per annum. Old 2027 Notes that are not tendered will bear interest at a rate of 7.50% per annum.
Withdrawal Rights	You may withdraw Old Notes that you tender pursuant to the exchange offer by furnishing a written or facsimile transmission notice of withdrawal to the exchange agent containing the information set forth in The Exchange Offer Withdrawal of Tenders at any time prior to the expiration date.
Acceptance of Old Notes and Delivery of New Notes	We will accept for exchange any and all Old Notes that are properly tendered in the exchange offer prior to the expiration date. See The Exchange Offer Procedures for Tendering Old Notes. The New Notes issued pursuant to the exchange offer will be delivered promptly following the expiration date.
Resale	We believe that you will be able to freely transfer the New Notes without registration or any prospectus delivery requirement; however, certain broker-dealers and certain of our affiliates may be required to deliver copies of this prospectus if they resell any New Notes.

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Taxation	The exchange of Old Notes for New Notes will not be a taxable event for United States federal income tax purposes. See United States Federal Income Tax Consequences.
Broker-Dealers	Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. See Plan of Distribution.
Exchange Agent and Information Agent	Global Bondholder Services Corporation is the exchange agent and the information agent for the exchange offer. The address and phone number of Global Bondholder Services Corporation are on the inside of the back cover of this prospectus.

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Summary of Terms of New Notes

Issuer	Service Corporation International
New Notes	$200,000,000 aggregate principal amount of 6.75% Senior Notes due 2015 and $200,000,000 aggregate principal amount of 7.50% Senior Notes due 2027.
Maturity Dates	April 1, 2015 for the New 2015 Notes and April 1, 2027 for the New 2027 Notes.
Interest Rate	For the New 2015 Notes, 6.75% per annum, accruing from April 9, 2007. For the New 2025 Notes, 7.50% per annum, accruing from April 9, 2007.
Interest Payment Dates	April 1 and October 1, commencing on October 1, 2007.
Ranking	The New Notes will be our general unsecured obligations and will rank equal in right of payment with all of our other unsubordinated indebtedness and senior in right of payment to any of our future subordinated indebtedness. The New Notes will be effectively subordinated to all of our existing and future secured indebtedness to the extent of the collateral securing such indebtedness and to all indebtedness and other obligations of our subsidiaries, whether or not secured. As of March 31, 2007, we and our subsidiaries had approximately $1.9 billion of indebtedness (excluding the notes covered by this prospectus and letter of credit obligations), of which $129 million represents our senior secured indebtedness and the remainder represents our senior unsecured indebtedness. As of March 31, 2007, our subsidiaries had approximately $144 million of indebtedness (excluding guarantees of our indebtedness, letter of credit obligations and intercompany receivables).
Change of Control	Upon the occurrence of a change of control (as defined in Description of the Notes ø Change of Control), unless we have exercised our right to redeem all of the New Notes of a series as described below, each holder of the New Notes of that series may require us to repurchase such holder s New Notes, in whole or in part, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest to the purchase date.
Optional Redemption	The New Notes will be redeemable in whole or in part, at our option at any time, at redemption prices as set forth in this prospectus under Description of the Notes Optional Redemption, plus accrued and unpaid interest to the redemption date.
Restrictive Covenants	We will issue the New Notes under the same indenture under which the Old Notes were issued. The indenture contains covenants limiting the creation of liens securing indebtedness and sale-leaseback transactions. These covenants are subject to important exceptions. See Risk Factors Risks Related to Tendering Old Notes for New Notes The New Notes lack subsidiary guarantees and some covenants typically found in other comparably rated debt securities, and Description of the Notes Covenants for more information.

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Use of Proceeds	We will not receive any proceeds from the exchange of the New Notes for the outstanding Old Notes.
Governing Law	The New Notes will be, and the indenture is, governed by, and construed in accordance with, the laws of the State of Texas.
Trustee, Transfer Agent and Paying Agent	The Bank of New York Trust Company, N.A.
Book-Entry Depository	The Depository Trust Company

You should read the Risk Factors section beginning on page 12, as well as the other cautionary statements throughout this prospectus, to ensure you understand the risks involved with the exchange of the New Notes for the outstanding Old Notes.

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Summary Historical Financial Information

The following table sets forth summary historical financial information for each of the years in the five-year period ended December 31, 2006 and the three months ended March 31, 2007 and 2006. The year-end information is derived from our audited consolidated financial statements and the related notes thereto. The quarterly information is derived from our unaudited condensed consolidated financial statements.

The following table should be read together with our Annual Report on Form 10-K for the year ended December 31, 2006 (the 2006 Form 10-K) and our Quarterly Report on Form 10-Q for the three months ended March 31, 2007, each of which is incorporated by reference in this prospectus.

	Three Months Ended March 31,		Years Ended December 31,				
	2007	2006	2006(1)	2005	2004	2003	2002
	(Dollars in millions, except per share amounts)						
Summary Consolidated Statements of Operations Data:							
Revenue	$ 607.6	$ 442.0	$ 1,747.3	$ 1,711.0	$ 1,825.7	$ 2,308.9	$ 2,289.0
Income (loss) from continuing operations before cumulative effect of accounting changes	34.7	26.8	52.6	55.1	117.4	69.1	(91.5)
Income (loss) from discontinued operations, net of tax(2)	2.9	0.1	3.9	4.5	43.8	16.0	(8.4)
Cumulative effect of accounting changes, net of tax(3)(4)(5)(6)				(187.5)	(50.6)		(135.6)
Net income (loss)	$ 37.6	$ 26.9	$ 56.5	$ (127.9)	$ 110.7	$ 85.1	$ (235.4)
Earnings (loss) per share:							
Income (loss) from continuing operations before cumulative effect of accounting changes							
Basic	$ 0.12	$ 0.09	$ .18	$ .18	$ .37	$ .23	$ (.31)
Diluted	$ 0.12	$ 0.09	$ .18	$ .18	$ .36	$ .23	$ (.31)
Net income (loss)							
Basic	$ 0.13	$ 0.09	$ .19	$ (.42)	$ .35	$ .28	$ (.80)
Diluted	$ 0.13	$ 0.09	$ .19	$ (.42)	$ .34	$ .28	$ (.80)
Cash dividends declared per share	$ 0.03	$ 0.025	$ 0.11	$ 0.10	$	$	$
Summary Consolidated Balance Sheet Data (at December 31):							
Total assets	$ 9,749.7		$ 9,729.4	$ 7,544.8	$ 8,227.2	$ 7,571.2	$ 7,801.8
Long-term debt (less current maturities), including capital leases	$ 1,768.6		$ 1,912.7	$ 1,186.5	$ 1,200.4	$ 1,530.1	$ 1,885.2
Stockholders equity	$ 1,653.5		$ 1,594.8	$ 1,581.6	$ 1,843.0	$ 1,516.3	$ 1,318.9

Summary Consolidated Statement of Cash Flows Data:							
Net cash provided by operating activities	$ 127.9	$ 80.2	$ 324.2	$ 312.9	$ 94.2	$ 374.3	$ 352.2

(1) Results for 2006 include operations acquired from Alderwoods from November 28, 2006 to December 31, 2006. These operations contributed $50.9 million to revenue, $5.4 million to net income and $8.6 million to net cash provided by operating activities during this period. For more information regarding the Alderwoods acquisition, see Part II, Item 8. Financial Statements and Supplementary Data, Note 5 in our 2006 Form 10-K.

(2) Our operations in Singapore, which were sold in 2006, and in Argentina, Uruguay and Chile, which were sold in 2005, have been classified as discontinued operations for all periods presented. For more

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information regarding discontinued operations, see Part II, Item 8. Financial Statements and Supplementary Data, Note 21 in our 2006 Form 10-K.

(3) Results for the 2007, 2006 and 2005 periods reflect our change in accounting for direct selling costs related to preneed funeral and cemetery contracts. Results for 2005 include a $187.5 million charge, net of tax, for the cumulative effect of this change. For more information regarding this accounting change, see Part II, Item 8. Financial Statements and Supplementary Data, Note 3 in our 2006 Form 10-K.

(4) On March 18, 2004, we implemented revised Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46R). Under the provisions of FIN 46R, we are required to consolidate our preneed funeral and cemetery merchandise and service trust assets, cemetery perpetual care trusts, and certain cemeteries. As a result of this accounting change, we recognized a cumulative effect charge of $14.0 million, net of tax, in 2004.

(5) Results for 2004, 2005, 2006 and 2007 reflect our change in accounting for pension gains and losses. Results for 2004 include a $36.6 million charge, net of tax, for the cumulative effect of this change.

(6) Results for all periods presented reflect our change in accounting for goodwill under Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Results for 2002 include a $135.6 million charge, net of tax, for the cumulative effect of this change.

Ratio of Earnings to Fixed Charges

The following table sets forth SCI s consolidated ratio of earnings to fixed charges for the periods shown:

Three Months Ended March 31,		Years Ended December 31,				
2007	**2006**	**2006**	**2005**	**2004**	**2003**	**2002**
2.46	2.47	1.75	1.72	1.79	1.59	A

A. During the year ended December 31, 2002, the ratio coverage was less than 1:1. In order to achieve a coverage ratio of 1:1, we would have had to generate additional income from continuing operations before income taxes and cumulative effects of accounting changes of $142.4 million for the year ended December 31, 2002.

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RISK FACTORS

Before you decide to participate in the exchange offer, you should read the risks, uncertainties and factors that may adversely affect us that are discussed in the documents incorporated by reference herein, as well as the following additional risk factors.

Risks Related to Tendering Old Notes for New Notes

Because we are a holding company, your rights under the New Notes will be effectively subordinated to the rights of holders of our subsidiaries liabilities.

Because we are a holding company, our cash flow and ability to service debt, including the New Notes, depend upon the distribution of earnings, loans or other payments made by our subsidiaries to us. Our subsidiaries are separate legal entities and have no obligation with respect to the notes. In addition, payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions. The New Notes will be effectively subordinated to all of the existing and future obligations of our subsidiaries. Our senior credit facility and our Series A and Series B notes due 2011 are guaranteed by our domestic subsidiaries, which conduct substantially all of our operating activities. As of March 31, 2007, our subsidiaries had approximately $144 million of indebtedness, excluding guarantees of our indebtedness, letter of credit obligations and intercompany receivables.

The New Notes are unsecured and will be effectively subordinated to all of our existing and future secured obligations to the extent of the collateral securing such obligations.

The New Notes are unsecured and will be effectively subordinated to all of our existing and future secured obligations to the extent of the collateral securing such obligations. As of March 31, 2007, we had approximately $129 million of secured indebtedness.

The New Notes lack subsidiary guarantees and some covenants typically found in other comparably rated public debt securities.

Although the New Notes are rated below investment grade by both Standard & Poor s and Moody s Investors Service, they lack the protection of subsidiary guarantees and several financial and other restrictive covenants typically associated with comparably rated public debt securities, including:

incurrence of additional indebtedness;

payment of dividends and other restricted payments;

sale of assets and the use of proceeds therefrom;

transactions with affiliates; and

dividend and other payment restrictions affecting subsidiaries.

We may not be able to purchase the New Notes upon a change of control, which would result in a default under the indenture governing the New Notes and would adversely affect our business and financial condition.

Upon the occurrence of specific kinds of change of control events, we must offer to purchase the New Notes at 101% of the principal amount thereof plus accrued and unpaid interest to the purchase date. We may not have sufficient funds available to make any required repurchases of the New Notes. If we fail to repurchase New Notes in that circumstance, we will be in default under the indenture governing the New Notes and, in turn, under our senior credit facility and any other indebtedness with similar cross-default provisions. Our Series A and Series B notes due 2011 aggregating $200 million in principal amount and other senior notes issued by us in 2006 aggregating $500 million in principal amount have similar repurchase rights upon a change of control.

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In addition, certain change of control events would constitute an event of default under our senior credit facility. A default under our senior credit facility would result in an event of default under the indenture and any other indebtedness with similar cross-default provisions if the administrative agent or the lenders accelerate our debt under our senior credit facility. Upon the occurrence of a change of control we could seek to refinance the indebtedness under our senior credit facility, the New Notes and our other senior notes having similar repurchase rights or obtain a waiver from the lenders or the holders of such notes. We cannot assure you, however, that we would be able to obtain a waiver or refinance our indebtedness on commercially reasonable terms, if at all. Any future debt that we incur may also affect our ability to repay the New Notes upon a change of control. See Description of the Notes Change of Control.

An active trading market for the New Notes may not develop.

Prior to this offering, there was no market for the New Notes of either series. Although we expect the New Notes to trade in The PORTAL® Market, the New Notes will not be listed on any securities exchange or for quotation through any automated dealer quotation system. Although the initial purchasers may make a market in each series of New Notes after the completion of the exchange offer, they are not obligated to do so and may discontinue any such market making activities at any time without notice. Accordingly, no assurance can be given as to the liquidity of, or adequate trading markets for, the New Notes of either series.

If we breach any of the material financial covenants under our various indentures, senior credit facility or guarantees, our debt service obligations could be accelerated.

If we or any of our consolidated subsidiaries breach any of the material financial covenants under our various indentures or our senior credit facility, our substantial debt service obligations, including the New Notes, could be accelerated. Furthermore, any breach of any of the material financial covenants under our senior credit facility could result in the acceleration of the indebtedness of all of our subsidiaries. In the event of any such simultaneous acceleration, we would not be able to repay all of our indebtedness.

The restrictions contained in our various indentures do not limit our ability to issue additional indebtedness.

We could enter into acquisitions, recapitalizations or other transactions that could increase our outstanding indebtedness. The indenture governing the New Notes does not limit our ability to incur additional indebtedness. Although covenants under the credit agreement governing our senior credit facility and under our Series A and Series B notes due 2011 will limit our ability and the ability of our present and future subsidiaries to incur certain additional indebtedness, we are permitted to incur significant additional indebtedness, including unused availability under our senior credit facility. Additionally, under the credit agreement, we are permitted to pay dividends and repurchase stock, subject to certain conditions. Issuing additional indebtedness could materially impact our business by making it more difficult for us to satisfy our obligations with respect to the New Notes; increasing our vulnerability to general adverse economic and industry conditions; limiting our ability to obtain additional financing; requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, which will reduce the amount of our cash flow available for other purposes, including capital expenditures and other general corporate purposes; limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and placing us at a possible competitive disadvantage compared to our competitors that have less debt or the ability to use their cash flows for such purposes as described above.

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Risk Related to Continuing Ownership of the Old Notes

If you fail to exchange your outstanding Old Notes for New Notes, you will continue to hold notes subject to transfer restrictions.

We will only issue New Notes in exchange for outstanding Old Notes that you timely and properly tender. Therefore, you should allow sufficient time to ensure timely delivery of the outstanding Old Notes and you should carefully follow the instructions on how to tender your Old Notes set forth under The Exchange Offer Procedures for Tendering Old Notes and in the letter of transmittal that accompanies this prospectus. Neither we nor the exchange agent are required to notify you of any defects or irregularities relating to your tender of outstanding Old Notes.

If you do not exchange your outstanding Old Notes for New Notes in this exchange offer, the outstanding Old Notes you hold will continue to be subject to the existing transfer restrictions. In general, you may not offer or sell the outstanding Old Notes except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not plan to register the outstanding Old Notes under the Securities Act. If you continue to hold any outstanding Old Notes after this exchange offer is completed, you may have trouble selling them because of these restrictions on transfer.

The trading market for unexchanged Old Notes could be limited.

The trading market for unexchanged Old Notes could become significantly more limited after the exchange offer due to the reduction in the amount of Old Notes outstanding upon consummation of the exchange offer. Therefore, if your Old Notes are not exchanged for New Notes in the exchange offer, it may become more difficult for you to sell or otherwise transfer your Old Notes. This reduction in liquidity may in turn reduce the market price, and increase the price volatility, of the Old Notes. There is a risk that an active trading market in the unexchanged Old Notes will not exist, develop or be maintained and we cannot give you any assurances regarding the prices at which the unexchanged Old Notes may trade in the future.

Risks Related to our Business

Our ability to execute our business plan depends on many factors, many of which are beyond our control.

Our strategic plan is focused on cost management and the development of key revenue initiatives designed to generate future internal growth in our core funeral and cemetery operations. Many of the factors necessary for the execution of our strategic plan, such as the number of deaths, are beyond our control. We cannot give assurance that we will be able to execute any or all of our strategic plan. Failure to execute any or all of the strategic plan could have a material adverse effect on our financial condition, results of operations, or cash flows.

We may fail to realize the anticipated benefits of the acquisition of Alderwoods.

The success of the acquisition of Alderwoods will depend, in part, on our ability to realize the anticipated cost savings from shared corporate and administrative areas, the rationalization of duplicative expenses, and the realization of revenue growth opportunities. However, to realize the anticipated benefits from the acquisition, we must successfully combine the businesses in a manner that permits those costs savings and revenue increases to be realized. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer or cost more to realize than expected. It is possible that the integration process could result in the loss of valuable employees, the disruption of ongoing businesses or inconsistencies in standards, controls, procedures, practices, and policies that could adversely impact our operations.

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The integration of Alderwoods may prove disruptive and could result in the combined business failing to meet our expectations.

The process of integrating the operations of Alderwoods may require a disproportionate amount of resources and management attention. Our future operations and cash flow will depend largely upon our ability to operate the former Alderwoods locations efficiently, achieve the strategic operating objectives for our business and realize significant cost savings and synergies. Our management team may encounter unforeseen difficulties in managing the integration. In order to successfully combine and operate our businesses, our management team will need to focus on realizing anticipated synergies, revenue increases, and cost savings on a timely basis while maintaining the efficiency of our operations. Any substantial diversion of management attention or difficulties in operating the combined business could affect our revenues and ability to achieve operational, financial, and strategic objectives.

Our senior credit facility and Series A and Series B notes due 2011 contain covenants that may prevent us from engaging in certain transactions.

Our senior credit facility and Series A and Series B notes due 2011 contain, among other things, various affirmative and negative covenants that may prevent us from engaging in certain transactions that might otherwise be considered beneficial to us. These covenants limit, among other things, our and our subsidiaries ability to:

Incur additional secured indebtedness (including guarantee obligations);

Create liens on assets;

Engage in certain transactions with affiliates;

Enter into sale-leaseback transactions;

Engage in mergers, liquidations, and dissolutions;

Sell assets;

Enter into leases;

Pay dividends, distributions, and other payments in respect of capital stock and purchase our capital stock in the open market;

Make investments, loans, or advances;

Repay subordinated indebtedness or amend the agreements relating thereto;

Change our fiscal year;

Create restrictions on our ability to receive distributions from subsidiaries; and

Change our lines of business.

Our senior credit facility and the Series A and Series B notes due 2011 also require us to maintain certain leverage and interest coverage ratios.

If we lost the ability to use surety bonding to support our preneed funeral and preneed cemetery activities, we could have to make material cash payments to fund certain trust funds.

We have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been issued

to support our preneed funeral and cemetery activities. In the event all of the surety companies cancelled or did not renew our surety bonds, which are generally renewed for twelve-month periods, we would be required to either obtain replacement coverage or fund approximately $277.5 million as of March 31, 2007 into state-mandated trust accounts.

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The funeral home and cemetery industry continues to be increasingly competitive.

In North America, the funeral and cemetery industry is characterized by a large number of locally owned, independent operations. To compete successfully, our funeral service locations and cemeteries must maintain good reputations and high professional standards in the industry, as well as offer attractive products and services at competitive prices. In addition, we must market the Company in such a manner as to distinguish us from our competitors. We have historically experienced price competition from independent funeral home and cemetery operators, monument dealers, casket retailers, low-cost funeral providers, and other non-traditional providers of services and merchandise. If we are unable to successfully compete, our financial condition, results of operations and cash flows could be materially adversely affected.

Our affiliated funeral and cemetery trust funds own investments in equity securities, fixed income securities and mutual funds, which are affected by financial market conditions that are beyond our control.

In connection with our preneed funeral and preneed cemetery merchandise and service sales, most affiliated funeral and cemetery trust funds own investments in equity securities and mutual funds. Our earnings and investment gains and losses on these equity securities and mutual funds are affected by financial market conditions that are beyond our control.

As of March 31, 2007 and December 31, 2006, net unrealized appreciation in the preneed funeral and cemetery merchandise and services trust funds amounted to $41.3 million and $71.3 million and $40.6 million and $70.3 million, respectively. Our perpetual care trust funds had net unrealized appreciation of $38.6 million and $41.1 million as of March 31, 2007 and December 31, 2006. The following table summarizes the investment returns excluding fees on our trust funds for the last three years, and the first quarter of 2007 and 2006.

	2006	2005	2004	Q1 2007	Q1 2006
Preneed funeral trust funds	8.8%	6.6%	7.1%	2.2%	2.9%
Cemetery merchandise and services trust funds	8.4%	6.9%	6.7%	2.0%	2.7%
Perpetual care trust funds	10.8%	3.9%	8.6%	2.0%	1.9%

If earnings from our trust funds decline, we would likely experience a decline in future revenues. In addition, if the trust funds experienced significant investment losses, there could be insufficient funds in the trusts to cover the costs of delivering services and merchandise or maintaining cemeteries in the future. We would have to cover any such shortfall with cash flows from operations, which could have a material adverse effect on our financial condition, results of operations, or cash flows.

Increasing death benefits related to preneed funeral contracts funded through life insurance or annuity contracts may not cover future increases in the cost of providing a price guaranteed funeral service.

We sell price-guaranteed preneed funeral contracts through various programs providing for future funeral services at prices prevailing when the agreements are signed. For preneed funeral contracts funded through life insurance or annuity contracts, we receive in cash a general agency commission that typically averages approximately 16% of the total sale from the third party insurance company. Additionally, there is an increasing death benefit associated with the contract of approximately 1% per year to be received in cash at the time the funeral is performed. There is no guarantee that the increasing death benefit will cover future increases in the cost of providing a price-guaranteed funeral service, which could materially adversely affect our future cash flows, revenues, and operating margins.

Unfavorable results of litigation could have a material adverse impact on our financial statements.

We are subject to a variety of claims and lawsuits in the ordinary course of our business. For more information regarding these claims and lawsuits, see Part II, Item 8. Financial Statements and Supplementary Data, Note 15 in our 2006 Form 10-K and Part I, Item 1. Financial Statements, Note 15

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in our March 31, 2007 Form 10-Q. Adverse outcomes in some or all of the pending cases may result in significant monetary damages or injunctive relief against us. While management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our financial position or results of operations, litigation and other claims are subject to inherent uncertainties and management s view of these matters may change in the future. There exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

If the number of deaths in our markets declines, our cash flows and revenues may decrease.

If the number of deaths declines, the number of funeral services and interments performed by us could decrease and our financial condition, results of operations and cash flows could be materially adversely affected.

The continuing upward trend in the number of cremations performed in North America could result in lower revenue and gross profit dollars.

There is a continuing upward trend in the number of cremations performed in North America as an alternative to traditional funeral service dispositions. However, we have seen a recent reversal in the upward trend in our businesses as our strategic pricing initiative and discounting policies have resulted in a decline in highly-discounted, low-service cremation customers. In our operations in North America during the first quarter of 2007, 41.7% of the comparable funeral services we performed were cremation cases compared to 42.1% performed in the first quarter of 2006. In our operations in North America during 2006 and 2005, 40.9% of the comparable funeral services we performed were cremation cases compared to 39.6% performed in 2004, respectively. We expect this trend to continue in the near term. We also continue to expand our cremation memorialization products and services which has resulted in higher average sales for cremation services. If we are unable to successfully expand our cremation memorialization products and services, and cremations continue to be a significant percentage of our funeral services, our financial condition, results of operations, and cash flows could be materially adversely affected.

The funeral home and cemetery businesses are high fixed-cost businesses.

The majority of our operations are managed in groups called markets. Markets are geographical groups of funeral service locations and cemeteries that share common resources such as operating personnel, preparation services, clerical staff, motor vehicles and preneed sales personnel. Personnel costs, the largest of our operating expenses, are the cost components most beneficially affected by this grouping. We must incur many of these costs regardless of the number of funeral services or interments performed. Because we cannot necessarily decrease these costs when we experience lower sales volumes, a sales decline may cause margin percentages to decline at a greater rate than the decline in revenues.

Regulation and compliance could have a material adverse impact on our financial results.

Our operations are subject to regulation, supervision, and licensing under numerous foreign, federal, state, and local laws, ordinances and regulations, including extensive regulations concerning trust funds, preneed sales of funeral and cemetery products and services, and various other aspects of our business. The impact of such regulations varies depending on the location of our funeral and cemetery operations. Violations of applicable laws could result in fines or sanctions to us.

In addition, from time to time, governments and agencies propose to amend or add regulations, which would increase costs and decrease cash flows. For example, foreign, federal, state, local and other regulatory agencies have considered and may enact additional legislation or regulations that could affect the deathcare industry, such as regulations that require more liberal refund and cancellation policies for preneed sales of products and services, limit or eliminate our ability to use surety bonding, increase trust requirements, and/or prohibit the common ownership of funeral homes and cemeteries in the same

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market. If adopted by the regulatory authorities of the jurisdictions in which we operate, these and other possible proposals could have a material adverse effect on our financial condition, results of operations, and cash flows.

Compliance with laws, regulations, industry standards, and customs concerning burial procedures and the handling and care of human remains is critical to our continued success. Litigation and regulatory proceedings regarding these issues could have a material adverse effect on our financial condition, results of operations, and cash flows. We are continually monitoring and reviewing our operations in an effort to insure that we are in compliance with these laws, regulations, and standards and, where appropriate, taking appropriate corrective action.

A number of years may elapse before particular tax matters, for which we have established accruals, are audited and finally resolved.

The number of tax years with open tax audits varies depending on the tax jurisdiction. In the United States, the Internal Revenue Service is currently examining our tax returns for 1999 through 2004 and various state jurisdictions are auditing years through 2005. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our accruals reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would reduce a deferred tax asset or require the use of cash. Favorable resolution could result in reduced income tax expense reported in the financial statements in the future.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 in this prospectus and in the documents incorporated by reference herein. These statements may be accompanied by words such as believe, estimate, project, expect, anticipate or predict that convey the uncertainty of future eve outcomes. These statements are based on assumptions that we believe are reasonable; however, many important factors could cause our actual results in the future to differ materially from the forward-looking statements made in this prospectus and in any other documents incorporated by reference herein. In addition to the factors described in this prospectus under Risk Factors Risks Related to Our Business and those set forth from time to time in our filings with the Commission, important factors that could cause our actual results to differ materially from those in forward-looking statements include, among others, the following:

changes in general economic conditions, both domestically and internationally, impacting financial markets (e.g., marketable security values, as well as currency and interest rate fluctuations) that could negatively affect us, particularly, but not limited to, levels of trust fund income, interest expense, pension expense and negative currency translation effects.

our ability to successfully integrate Alderwoods or that the anticipated benefits of the acquisition are not fully realized.

our ability to consummate planned divestitures, including divestitures resulting from the Alderwoods acquisition, and realize the anticipated proceeds within the anticipated time frame.

the outcomes of pending lawsuits and proceedings against us and the possibility that insurance coverage is deemed not to apply to these matters or that an insurance carrier is unable to pay any covered amounts to us.

the amounts payable by us with respect to our outstanding legal matters exceeding our established reserves.

the outcome of a pending Internal Revenue Service audit. We maintain accruals for tax liabilities which relate to uncertain tax matters. If these tax matters are unfavorably resolved, we will be required to make any required payments to tax authorities. If these tax matters are favorably

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resolved, the accruals maintained by us will no longer be required and these amounts will primarily be reversed through the tax provision at the time of resolution.

our ability to manage changes in consumer demand and/or pricing for our products and services due to several factors, such as changes in numbers of deaths, cremation rates, competitive pressures and local economic conditions.

changes in domestic and international political and/or regulatory environments in which we operate, including potential changes in tax, accounting and trusting policies.

changes in credit relationships impacting the availability of credit and the general availability of credit in the marketplace.

our ability to successfully access surety and insurance markets at a reasonable cost.

our ability to successfully leverage our substantial purchasing power with certain of our vendors.

the effectiveness of our internal control over financial reporting, and our ability to certify the effectiveness of our internal control over financial reporting and to obtain an unqualified attestation report of our auditors regarding the effectiveness of our internal control over financial reporting.

our senior credit facility and Series A and Series B notes due 2011 contain covenants that may prevent us from engaging in certain transactions.

We assume no obligation to publicly update or revise any forward-looking statements made in this prospectus or elsewhere to reflect events or circumstances after the date of this prospectus.

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USE OF PROCEEDS

This exchange offer is intended to satisfy our obligations under the registration rights agreements entered into in connection with our issuance of the Old Notes. We received aggregate net proceeds of approximately $392.7 million from the issuance of the Old Notes after deducting the initial purchasers discounts and estimated offering expenses. We intend to use the net proceeds, together with available cash, to retire our 6.50% Notes due 2008 and 7.70% Notes due 2009.

We will not receive any cash proceeds from the issuance of the New Notes. We will exchange outstanding Old Notes for New Notes in like principal amount as contemplated in this prospectus. The terms of the New Notes are identical in all material respects to the existing Old Notes except as otherwise described herein under Description of the Notes. The Old Notes surrendered in exchange for the New Notes will be retired and canceled and cannot be reissued. Accordingly, issuance of the New Notes will not result in a change in our total debt and other financing obligations.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of March 31, 2007 on an As Reported basis, on an As Adjusted basis and an As Further Adjusted basis:

(i) *As Adjusted.* For purposes of the As Adjusted capitalization, we assumed the sale of $400 million of our Old Notes was completed as of March 31, 2007 and have adjusted for the issuance of the Old Notes and the receipt of cash in connection therewith, net of the initial purchasers discount and estimated offering expenses.

(ii) *As Further Adjusted.* The As Further Adjusted capitalization reflects the adjustments discussed in (i) above and further assumes (a) the purchase of $149.8 million aggregate principal amount of our 6.50% Notes due 2008 pursuant to our tender offer for such notes, for aggregate consideration of $151.3 million and (b) the purchase of $173.9 million aggregate principal amount of our 7.70% Notes due 2009, pursuant to our tender offer for such notes for aggregate consideration of $182.4 million, in each case excluding accrued interest. We have assumed the tender offers were completed as of March 31, 2007 at the values above and have adjusted for the extinguishment of $149.8 million of our 6.50% Notes and $173.9 million of our 7.70% Notes, the loss on the tender offers, and the payment of accrued interest, premium and the related fees and expenses of the tender offers.

	As of March 31, 2007		
	As Reported	**As Adjusted**	**As Further Adjusted**
	(Dollars in thousands and unaudited)		
Cash and cash equivalents	$ 78,093	$ 470,759	$ 130,021
Debt:			
6.50% Notes due 2008	$ 195,000	$ 195,000	$ 45,209
7.70% Notes due 2009	202,588	202,588	28,731
6.75% Notes due 2015		200,000	200,000
7.50% Notes due 2027		200,000	200,000
Other debt	1,470,166	1,469,332	1,470,345
Total debt	1,867,754	2,266,920	1,944,285
Stockholders equity:			
Common stock	294,795	294,795	294,795
Capital in excess of par value	2,138,808	2,138,808	2,138,808
Accumulated deficit	(856,765)	(856,765)	(864,163)
Accumulated other comprehensive income	76,704	76,704	76,704

Total stockholders equity	1,653,542	1,653,542	1,646,144
Total capitalization	$ 3,521,296	$ 3,920,462	$ 3,590,429

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth SCI s consolidated ratio of earnings to fixed charges for the periods shown:

Three Months Ended March 31,		Years Ended December 31,				
2007	**2006**	**2006**	**2005**	**2004**	**2003**	**2002**
2.46	2.47	1.75	1.72	1.79	1.59	A

A. During the year ended December 31, 2002, the ratio coverage was less than 1:1. In order to achieve a coverage ratio of 1:1, we would have had to generate additional income from continuing operations before income taxes and cumulative effects of accounting changes of $142.4 million for the year ended December 31, 2002.

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THE EXCHANGE OFFER

Exchange Terms

Old Notes in an aggregate principal amount of $400,000,000 are currently issued and outstanding. The maximum aggregate principal amount of New Notes that will be issued in exchange for Old Notes is $400,000,000. The terms of the New 2015 Notes are identical in all material respects to the Old 2015 Notes, and the terms of the New 2027 Notes are identical in all material respects to the Old 2027 Notes, except that the New Notes will not contain terms with respect to transfer restrictions, registration rights and payments of additional interest that relate to the Old Notes.

The New 2015 Notes will bear interest at a rate of 6.75% per year, payable semi-annually in arrears on April 1 and October 1, commencing on October 1, 2007. The New 2027 Notes will bear interest at a rate of 7.50% per year, payable semi-annually in arrears on April 1 and October 1, commencing on October 1, 2007. Holders of New Notes will receive interest from the date of the original issuance of the Old Notes. Holders of New Notes will not receive any interest on Old Notes tendered and accepted for exchange. In order to exchange your Old Notes for New Notes in the exchange offer, you will be required to make the following representations, which are included in the letter of transmittal:

- the New Notes that you receive will be acquired in the ordinary course of your business;
- you are not participating, and have no arrangement or understanding with any person or entity to participate, in the distribution of the New Notes;
- you are not our affiliate, as defined in Rule 405 of the Securities Act, or a broker-dealer tendering Old Notes acquired directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act; and
- if you are not a broker-dealer, that you are not engaged in and do not intend to engage in the distribution of the New Notes.

Upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, we will accept for exchange any Old Notes properly tendered in the exchange offer, and the exchange agent will deliver the New Notes promptly after the expiration date of the exchange offer.

If you tender your Old Notes, you will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of the Old Notes in connection with the exchange offer. We will pay all charges, expenses and transfer taxes in connection with the exchange offer, other than the taxes described below under Transfer Taxes.

We make no recommendation to you as to whether you should tender or refrain from tendering all or any portion of your existing Old Notes into this exchange offer. In addition, no one has been authorized to make this recommendation. You must make your own decision whether to tender into this exchange offer and, if so, the aggregate amount of Old Notes to tender after reading this prospectus and the letter of transmittal and consulting with your advisors, if any, based on your financial position and requirements.

Expiration Date; Extensions; Termination; Amendments

The exchange offer expires at 5:00 p.m., New York City time, on August 8, 2007, unless we extend the exchange offer, in which case the expiration date will be the latest date and time to which we extend the exchange offer.

We expressly reserve the right, so long as applicable law allows:

- to delay our acceptance of Old Notes for exchange;
- to terminate the exchange offer if any of the conditions set forth under Conditions of the Exchange Offer exist;

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to waive any condition to the exchange offer;

to amend any of the terms of the exchange offer; and

to extend the expiration date and retain all Old Notes tendered in the exchange offer, subject to your right to withdraw your tendered Old Notes as described under Withdrawal of Tenders.

Any waiver or amendment to the exchange offer will apply to all Old Notes tendered, regardless of when or in what order the Old Notes were tendered. If the exchange offer is amended in a manner that we think constitutes a material change, or if we waive a material condition of the exchange offer, we will promptly disclose the amendment or waiver by means of a prospectus supplement that will be distributed to the registered holders of the Old Notes, and we will extend the exchange offer to the extent required by Rule 14e-1 under the Exchange Act.

We will promptly follow any delay in acceptance, termination, extension or amendment by oral or written notice of the event to the exchange agent, followed promptly by oral or written notice to the registered holders. Should we choose to delay, extend, amend or terminate the exchange offer, we will have no obligation to publish, advertise or otherwise communicate this announcement, other than by making a timely release to an appropriate news agency.

In the event we terminate the exchange offer, all Old Notes previously tendered and not accepted for payment will be returned promptly to the tendering holders.

In the event that the exchange offer is withdrawn or otherwise not completed, New Notes will not be given to holders of Old Notes who have validly tendered their Old Notes.

Resale of New Notes

Based on interpretations of the Commission staff set forth in no action letters issued to third parties, we believe that New Notes issued under the exchange offer in exchange for Old Notes may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, if:

you are acquiring New Notes in the ordinary course of your business;

you are not participating, and have no arrangement or understanding with any person or entity to participate, in the distribution of the New Notes;

you are not our affiliate within the meaning of Rule 405 under the Securities Act; and

you are not a broker-dealer who purchased Old Notes directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act.

If you tender Old Notes in the exchange offer with the intention of participating in any manner in a distribution of the New Notes:

you cannot rely on those interpretations by the Commission staff, and

you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction and such a secondary resale transaction must be covered by an effective registration statement containing the selling security holder information required by Item 507 or 508, as applicable, of Regulation S-K.

Only broker-dealers that acquired the Old Notes as a result of market-making activities or other trading activities may participate in the exchange offer. Each broker-dealer that receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the New Notes. Please read the section captioned Plan of Distribution for more details regarding the transfer of New Notes.

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Acceptance of Old Notes for Exchange

We will accept for exchange Old Notes validly tendered pursuant to the exchange offer, or defectively tendered, if such defect has been waived by us. We will not accept Old Notes for exchange subsequent to the expiration date of the exchange offer. Tenders of Old Notes will be accepted only in denominations of $1,000 and integral multiples thereof.

We expressly reserve the right, in our sole discretion, to:

delay acceptance for exchange of Old Notes tendered under the exchange offer, subject to Rule 14e-1 under the Exchange Act, which requires that an offeror pay the consideration offered or return the securities deposited by or on behalf of the holders promptly after the termination or withdrawal of a tender offer, or

terminate the exchange offer and not accept for exchange any Old Notes not theretofore accepted for exchange, if any of the conditions set forth below under Conditions of the Exchange Offer have not been satisfied or waived by us or in order to comply in whole or in part with any applicable law. In all cases, New Notes will be issued only after timely receipt by the exchange agent of certificates representing Old Notes, or confirmation of book-entry transfer, a properly completed and duly executed letter of transmittal, or a manually signed facsimile thereof, and any other required documents. For purposes of the exchange offer, we will be deemed to have accepted for exchange validly tendered Old Notes, or defectively tendered Old Notes with respect to which we have waived such defect, if, as and when we give oral, confirmed in writing, or written notice to the exchange agent. Promptly after the expiration date, we will deposit the New Notes with the exchange agent, who will act as agent for the tendering holders for the purpose of receiving the New Notes and transmitting them to the holders. The exchange agent will deliver the New Notes to holders of Old Notes accepted for exchange after the exchange agent receives the New Notes.

If, for any reason, we delay acceptance for exchange of validly tendered Old Notes or we are unable to accept for exchange validly tendered Old Notes, then the exchange agent may, nevertheless, on our behalf, retain tendered Old Notes, without prejudice to our rights described under Expiration Date; Extensions; Termination; Amendments , Conditions of the Exchange Offer and Withdrawal of Tenders , subject to Rule 14e-1 under the Exchange Act, which requires that an offeror pay the consideration offered or return the securities deposited by or on behalf of the holders thereof promptly after the termination or withdrawal of a tender offer.

If any tendered Old Notes are not accepted for exchange for any reason, or if certificates are submitted evidencing more Old Notes than those that are tendered, certificates evidencing Old Notes that are not exchanged will be returned, without expense, to the tendering holder, or, in the case of Old Notes tendered by book-entry transfer into the exchange agent s account at a book-entry transfer facility under the procedure set forth under Procedures for Tendering Old Notes Book-Entry Transfer , such Old Notes will be credited to the account maintained at such book-entry transfer facility from which such Old Notes were delivered, unless otherwise requested by such holder under Special Delivery Instructions in the letter of transmittal, promptly following the expiration date or the termination of the exchange offer.

Tendering holders of Old Notes exchanged in the exchange offer will not be obligated to pay brokerage commissions or transfer taxes with respect to the exchange of their Old Notes other than as described in Transfer Taxes or in Instruction 7 to the letter of transmittal. We will pay all other charges and expenses in connection with the exchange offer.

Procedures for Tendering Old Notes

Any beneficial owner whose Old Notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee or held through a book-entry transfer facility and who wishes to tender Old Notes should contact such registered holder promptly and instruct such registered holder to tender Old Notes on such beneficial owner s behalf.

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Tender of Old Notes Held Through Depository Trust Company

The exchange agent and Depository Trust Company (DTC) have confirmed that the exchange offer is eligible for the DTC s automated tender offer program. Accordingly, DTC participants may electronically transmit their acceptance of the exchange offer by causing DTC to transfer Old Notes to the exchange agent in accordance with DTC s automated tender offer program procedures for transfer. DTC will then send an agent s message to the exchange agent.

The term agent s message means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that DTC has received an express acknowledgment from the participant in DTC tendering Old Notes that are the subject of that book-entry confirmation that the participant has received and agrees to be bound by the terms of the letter of transmittal, and that we may enforce such agreement against such participant. In the case of an agent s message relating to guaranteed delivery, the term means a message transmitted by DTC and received by the exchange agent which states that DTC has received an express acknowledgment from the participant in DTC tendering Old Notes that they have received and agree to be bound by the notice of guaranteed delivery.

Tender of Old Notes Held in Certificated Form

For a holder to validly tender Old Notes held in certificated form:

the exchange agent must receive at its address set forth in this prospectus a properly completed and validly executed letter of transmittal, or a manually signed facsimile thereof, together with any signature guarantees and any other documents required by the instructions to the letter of transmittal, and

the exchange agent must receive certificates for tendered Old Notes at such address, or such Old Notes must be transferred pursuant to the procedures for book-entry transfer described below. A confirmation of such book-entry transfer must be received by the exchange agent prior to the expiration date of the exchange offer. A holder who desires to tender Old Notes and who cannot comply with the procedures set forth herein for tender on a timely basis or whose Old Notes are not immediately available must comply with the procedures for guaranteed delivery set forth below.

Letters of Transmittal and Old Notes should be sent only to the exchange agent, and not to us or to DTC.

The method of delivery of Old Notes, Letters of Transmittal and all other required documents to the exchange agent is at the election and risk of the holder tendering Old Notes. Delivery of such documents will be deemed made only when actually received by the exchange agent. If such delivery is by mail, we suggest that the holder use property insured, registered mail with return receipt requested, and that the mailing be made sufficiently in advance of the expiration date of the exchange offer to permit delivery to the exchange agent prior to such date. No alternative, conditional or contingent tenders of Old Notes will be accepted.

Signature Guarantee

Signatures on the letter of transmittal must be guaranteed by an eligible institution unless:

the letter of transmittal is signed by the registered holder of the Old Notes tendered therewith, or by a participant in one of the book-entry transfer facilities whose name appears on a security position listing it as the owner of those Old Notes, or if any Old Notes for principal amounts not tendered are to be issued directly to the holder, or, if tendered by a participant in one of the book-entry transfer facilities, any Old Notes for principal amounts not tendered or not accepted for exchange are to be credited to the participant s account at the book-entry transfer facility, and neither the Special Issuance Instructions nor the Special Delivery Instructions box on the letter of transmittal has been completed, or

the Old Notes are tendered for the account of an eligible institution.

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An eligible institution is a firm that is a member of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or a trust company having an office or correspondent in the United States or an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act.

Book-Entry Transfer

The exchange agent will seek to establish a new account or utilize an existing account with respect to the Old Notes at DTC promptly after the date of this prospectus. Any financial institution that is a participant in the DTC system and whose name appears on a security position listing as the owner of the Old Notes may make book-entry delivery of Old Notes by causing DTC to transfer such Old Notes into the exchange agent s account. **However, although delivery of Old Notes may be effected through book-entry transfer into the exchange agent s account at DTC, a properly completed and validly executed Letter of Transmittal, or a manually signed facsimile thereof, must be received by the exchange agent at one of its addresses set forth in this prospectus on or prior to the expiration date of the exchange offer, or else the guaranteed delivery procedures described below must be complied with.** The confirmation of a book-entry transfer of Old Notes into the exchange agent s account at DTC is referred to in this prospectus as a book-entry confirmation. Delivery of documents to DTC in accordance with DTC s procedures does not constitute delivery to the exchange agent.

Guaranteed Delivery

If you wish to tender your Old Notes and:

(1) certificates representing your Old Notes are not lost but are not immediately available,

(2) time will not permit your letter of transmittal, certificates representing your Old Notes and all other required documents to reach the exchange agent on or prior to the expiration date of the exchange offer, or

(3) the procedures for book-entry transfer cannot be completed on or prior to the expiration date of the exchange offer, you may nevertheless tender if all of the following conditions are complied with:

your tender is made by or through an eligible institution; and

on or prior to the expiration date of the exchange offer, the exchange agent has received from the eligible institution a properly completed and validly executed notice of guaranteed delivery, by manually signed facsimile transmission, mail or hand delivery, in substantially the form provided with this prospectus. The notice of guaranteed delivery must:

(a) set forth your name and address, the registered number(s) of your Old Notes and the principal amount of Old Notes tendered;

(b) state that the tender is being made thereby;

(c) guarantee that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal or facsimile thereof properly completed and validly executed, together with certificates representing the Old Notes, or a book-entry confirmation, and any other documents required by the letter of transmittal and the instructions thereto, will be deposited by the eligible institution with the exchange agent; and

(d) the exchange agent receives the properly completed and validly executed letter of transmittal or facsimile thereof with any required signature guarantees, together with certificates for all Old Notes in proper form for transfer, or a book-entry confirmation, and any other required documents, within three New York Stock Exchange trading days after the expiration date.

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Other Matters

New Notes will be issued in exchange for Old Notes accepted for exchange only after timely receipt by the exchange agent of:

certificates for (or a timely book-entry confirmation with respect to) your Old Notes,

a properly completed and duly executed letter of transmittal or facsimile thereof with any required signature guarantees, or, in the case of a book-entry transfer, an agent s message, and

any other documents required by the letter of transmittal.

We will determine, in our sole discretion, all questions as to the form of all documents, validity, eligibility, including time of receipt, and acceptance of all tenders of Old Notes. Our determination will be final and binding on all parties. **Alternative, conditional or contingent tenders of Old Notes will not be considered valid. We reserve the absolute right to reject any or all tenders of Old Notes that are not in proper form or the acceptance of which, in our opinion, would be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tender as to particular Old Notes.**

Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding.

Any defect or irregularity in connection with tenders of Old Notes must be cured within the time we determine, unless waived by us. We will not consider the tender of Old Notes to have been validly made until all defects and irregularities have been waived by us or cured. Neither we, the exchange agent, or any other person will be under any duty to give notice of any defects or irregularities in tenders of Old Notes, or will incur any liability to holders for failure to give any such notice.

Withdrawal of Tenders

Except as otherwise provided in this prospectus, you may withdraw your tender of Old Notes at any time prior to the expiration date.

For a withdrawal to be effective:

the exchange agent must receive a written notice of withdrawal at the address set forth on the inside of the back cover of this prospectus, or

you must comply with the appropriate procedures of DTC s automated tender offer program system.

Any notice of withdrawal must:

specify the name of the person who tendered the Old Notes to be withdrawn, and

identify the Old Notes to be withdrawn, including the principal amount of the Old Notes.

If Old Notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn Old Notes and otherwise comply with the procedures of DTC.

We will determine all questions as to validity, form, eligibility and time of receipt of any withdrawal notices. Our determination will be final and binding on all parties. We will deem any Old Notes so withdrawn not to have been validly tendered for exchange for purposes of the exchange offer.

Any Old Notes that have been tendered for exchange but that are not exchanged for any reason will be returned to their holder without cost to the holder or, in the case of Old Notes tendered by book-entry transfer into the exchange agent s account at DTC according to the procedures described above, such Old Notes will be credited to an account maintained with DTC for the Old Notes. This return or crediting will take place promptly after withdrawal, rejection of tender or termination of the exchange offer. You may

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retender properly withdrawn Old Notes by following one of the procedures described under Procedures for Tendering Old Notes at any time on or prior to the expiration date.

Conditions of the Exchange Offer

Notwithstanding any other provisions of the exchange offer, if, on or prior to the expiration date, we determine, in our reasonable judgment, that the exchange offer, or the making of an exchange by a holder of Old Notes, would violate applicable law or any applicable interpretation of the staff of the Commission, we will not be required to accept for exchange, or to exchange, any tendered Old Notes. We may also terminate, waive any conditions to or amend the exchange offer or, subject to Rule 14e-1 under the Exchange Act, which requires that an offeror pay the consideration offered or return the securities deposited by or on behalf of the holders thereof promptly after the termination or withdrawal of the exchange offer, postpone the acceptance for exchange of tendered Old Notes.

Transfer Taxes

We will pay all transfer taxes applicable to the transfer and exchange of Old Notes pursuant to the exchange offer. If, however:

delivery of the New Notes and/or certificates for Old Notes for principal amounts not exchanged, are to be made to any person other than the record holder of the Old Notes tendered;

tendered certificates for Old Notes are recorded in the name of any person other than the person signing any letter of transmittal; or

a transfer tax is imposed for any reason other than the transfer and exchange of Old Notes to us or our order,

the amount of any such transfer taxes, whether imposed on the record holder or any other person, will be payable by the tendering holder prior to the issuance of the New Notes.

Consequences of Failing to Exchange

If you do not exchange your Old Notes for New Notes in the exchange offer, you will remain subject to the restrictions on transfer of the Old Notes:

as set forth in the legend printed on the Old Notes as a consequence of the issuance of the Old Notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws; and

otherwise set forth in the offering circular distributed in connection with the private offering of the Old Notes.

In general, you may not offer or sell the Old Notes unless they are registered under the Securities Act, or if the offer or sale is exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the Old Notes under the Securities Act.

Accounting Treatment

The New Notes will be recorded at the same carrying value as the Old Notes, as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes upon the consummation of the exchange offer. We will amortize the expenses of the exchange offer over the term of the New Notes.

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Exchange Agent

Global Bondholder Services Corporation has been appointed as exchange agent for the exchange offer. You should direct questions and requests for assistance, requests for additional copies of this prospectus, the letter of transmittal or any other documents to the exchange agent. You should send certificates for Old Notes, letters of transmittal and any other required documents to the exchange agent at the address set forth on the inside of the back cover of this prospectus.

Information Agent

Global Bondholder Services Corporation has been appointed as the information agent for the exchange offer and will receive customary compensation for its services. Questions concerning tender procedures and requests for additional copies of this prospectus or the letter of transmittal should be directed to the information agent at the address and telephone number set forth on the inside of the back cover of this prospectus. Holders of Old Notes may also contact their commercial bank, broker, dealer, trust company or other nominee for assistance concerning the exchange offer.

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DESCRIPTION OF THE NOTES

The New Notes will be issued, and the Old Notes were issued under the Sixth Supplemental Indenture dated as of April 9, 2007 and the Seventh Supplemental Indenture dated as of April 9, 2007 (each, a Supplemental Indenture and together, the Supplemental Indentures), to our senior indenture dated February 1, 1993 (the Indenture), between us and The Bank of New York Trust Company, N.A., as successor trustee to The Bank of New York. The terms of the Notes include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939, as amended. References to the Indenture in this section include the applicable Supplemental Indenture.

The 2015 Notes and the 2027 Notes are two separate series of notes under the Indenture for purposes of, among other things, payments of principal and interest, Events of Default and consents to certain amendments to the Indenture and the Notes.

Certain terms used in this section are defined under the subheading Certain definitions . In this section, the words Company , SCI , we , us , and ours refer only to Service Corporation International and not to any of its subsidiaries

The following description is only a summary of the material provisions of the Indenture and the notes and does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the Indenture and the notes, including definitions therein of certain terms. We urge you to read the Indenture because it, and not this description, defines your rights as Holders of the notes. You may request copies of the Indenture at our address set forth under the heading Where You Can Find More Information .

General

The notes of each series:

- are our general unsecured obligations;
- are senior in right of payment to all of our subordinated indebtedness;
- rank equally in right of payment with all of our other unsubordinated indebtedness;
- are effectively subordinated in right of payment to all of the Company s existing and future secured indebtedness to the extent of the collateral securing that indebtedness;
- are structurally subordinated in right of payment to all of the liabilities and obligations, including trade payables, of each of our subsidiaries; and
- are limited to an aggregate principal amount of $200 million.

Maturity and Interest

The 2015 Notes will mature on April 1, 2015. The 2027 Notes will mature on April 1, 2027. Interest on the 2015 Notes will accrue at a rate of 6.75% per annum, and interest on the 2027 Notes will accrue at a rate of 7.50% per annum. The interest, including any additional interest, on each series of notes will be payable semi-annually on April 1 and October 1 of each year, commencing October 1, 2007, to the persons in whose names the notes are registered at the close of business on the preceding March 15 or September 15, respectively. Interest on notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. If we fail to comply with our obligations to file and maintain a registration statement in accordance with the registration rights agreements, additional interest will accrue on the notes of the affected series. All references in this prospectus to interest are deemed to include any such additional interest, unless the context indicates otherwise. If any interest payment date, repurchase or redemption date or stated maturity date falls on a day that is not a business day, payment will be made on the next business day (and without any interest or other payment in respect of such delay) with the same force and effect as if made on the relevant interest payment date, repurchase or

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redemption date, or stated maturity date. Unless we default on a payment, no interest will accrue for the period from and after the applicable maturity date or redemption date.

Optional Redemption

The notes of each series will be redeemable, in whole or in part, at our option at any time, upon at least 30 days and not more than 60 days notice to the holders, at a redemption price equal to the greater of (1) 100% of the principal amount of such notes, and (2) as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate plus 50 basis points in the case of the 2015 Notes and 50 basis points in the case of the 2027 Notes, plus, in each case, accrued interest thereon to (but not including) the date of redemption.

Selection

If we redeem less than all of the notes of either series at any time, the trustee will select the notes to be redeemed by any method that it deems fair and appropriate. In the event of a partial redemption, the trustee may provide for selection for redemption of portions of the principal amount of any note of a denomination larger than $1,000.

Change of Control

Upon the occurrence of any of the following events (each a Change of Control), each holder shall have the right to require that we repurchase all or any part of such holder s notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date):

(1) any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause (1) such person shall be deemed to have beneficial ownership of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 35% of the total voting power of our voting stock;

(2) individuals who on the issue date constituted the board of directors (together with any new directors whose election by such board of directors or whose nomination for election by our shareholders was approved by a vote of at least a majority of the directors of the Company then still in office who were either directors on the issue date or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the board of directors then in office;

(3) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution; or

(4) the merger or consolidation of the Company with or into another person or the merger of another person with or into the Company, or the sale of all or substantially all the assets of the Company (determined on a consolidated basis) to another person, other than a transaction following which (i) in the case of a merger or consolidation transaction, holders of securities that represented 100% of our voting stock immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the voting power of the voting stock of the surviving person in such merger or consolidation transaction immediately after such transaction and (ii) in the case of a sale of assets transaction, each transferee becomes an obligor in respect of the notes and a subsidiary of the transferor of such assets.

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Within 30 days following any Change of Control, we will mail a notice to each holder with a copy to the trustee (the Change of Control Offer) stating:

(1) that a Change of Control has occurred and that such holder has the right to require us to purchase such holder s notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control (including information with respect to *pro forma* historical income, cash flow and capitalization, in each case after giving effect to such Change of Control);

(3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and

(4) the instructions, as determined by us, consistent with the covenant described hereunder, that a holder must follow in order to have its notes purchased.

We will not be required to make a Change of Control Offer with respect to a series of notes following a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by us and purchases all notes of such series validly tendered and not withdrawn under such Change of Control Offer or (2) notice of redemption of all of such series of notes has been given pursuant to the indenture as described herein under the caption Optional Redemption unless and until there has been a default in payment of the applicable redemption price.

A Change of Control Offer may be made in advance of a Change of Control, conditional upon the Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, we will comply with the applicable securities laws and regulations and shall not be deemed to have breached our obligations under the covenant described hereunder by virtue of our compliance with such securities laws or regulations.

The Change of Control purchase feature of the notes may in certain circumstances make more difficult or discourage a sale or takeover of the Company and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations between the Company and the initial purchasers. The Company does not have the present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to incur additional secured indebtedness or permit our assets to become subject to liens are contained in the covenant described under Covenants Limitation on Liens . Such restrictions can only be waived with respect to a series with the consent of the holders of a majority in principal amount of the notes of that series then outstanding. Except for the limitations contained in such covenant, however, the indenture will not contain any covenants or provisions that may afford holders of the notes protection in the event of a highly leveraged transaction.

Our senior credit facility provides that the occurrence of certain change of control events would constitute a default thereunder. In the event that at the time of a Change of Control the terms of the credit agreement restrict or prohibit the purchase of notes following such Change of Control, then prior to

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the mailing of the notice to holders but in any event within 30 days following any Change of Control, we undertake to (1) repay in full all such indebtedness or (2) obtain the requisite consents under the agreement governing such indebtedness to permit the repurchase of the notes. If we do not repay such indebtedness or obtain such consents, we will remain prohibited from purchasing notes. In such case, our failure to comply with the foregoing undertaking, after appropriate notice and lapse of time, would result in an event of default under the indenture, which would, in turn, constitute a default under the credit agreement.

Future indebtedness that we may incur may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require the repurchase of such indebtedness upon a Change of Control. Moreover, the exercise by the holders of their right to require us to repurchase their notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to the holders of notes following the occurrence of a Change of Control may be limited by our then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The definition of Change of Control includes a disposition of all or substantially all of the assets of the Company to another person. Although there is a limited body of case law interpreting the phrase substantially all , there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of all or substantially all of the assets of the Company. As a result, it may be unclear as to whether a Change of Control has occurred and whether a holder of notes may require the Company to make an offer to repurchase the notes as described above. The provisions under the indenture relative to our obligation to make an offer to repurchase the notes as a result of a Change of Control may be waived or modified with respect to a series of notes with the written consent of the holders of a majority in principal amount of the notes of that series.

Covenants

The indenture contains the following covenants, among others, applicable to the notes of each series:

Limitation on Liens

Neither we, nor any subsidiary, may mortgage, pledge, encumber or subject to any lien or security interest to secure any of our indebtedness or any indebtedness of any subsidiary (other than indebtedness owing to us or a wholly-owned subsidiary) any assets without providing that the senior debt securities issued pursuant to the indenture shall be secured equally and ratably with (or prior to) any other indebtedness so secured, unless, after giving effect thereto, the aggregate outstanding amount of all such secured indebtedness of us and our subsidiaries (excluding secured indebtedness existing as of December 31, 2006 and any extensions, renewals or refundings thereof that do not increase the principal amount of indebtedness so extended, renewed or refunded and excluding secured indebtedness incurred as set forth in the next paragraph), together with all outstanding Attributable Indebtedness from sale and leaseback transactions described in the first bullet point under Limitation on Sale and Leaseback Transactions below, would not exceed 10% of Adjusted Consolidated Net Tangible Assets of us and our subsidiaries on the date such indebtedness is so secured.

This restriction will not prevent us or any subsidiary:

- from acquiring and retaining property subject to mortgages, pledges, encumbrances, liens or security interests existing thereon at the date of acquisition thereof, or from creating within one year of such acquisition mortgages, pledges, encumbrances or liens upon property acquired by us or any subsidiary after December 31, 2006, as security for purchase money obligations incurred by us or any subsidiary in connection with the acquisition of such property, whether payable to the person from whom such property is acquired or otherwise;

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from mortgaging, pledging, encumbering or subjecting to any lien or security interest current assets to secure current liabilities;

from mortgaging, pledging, encumbering or subjecting to any lien or security interest property to secure indebtedness under one or more Credit Facilities in an aggregate principal amount not to exceed $500 million;

from extending, renewing or refunding any indebtedness secured by a mortgage, pledge, encumbrance, lien or security interest on the same property theretofore subject thereto, provided that the principal amount of such indebtedness so extended, renewed or refunded shall not be increased; or

from securing the payment of workmen s compensation or insurance premiums or from making good faith pledges or deposits in connection with bids, tenders, contracts (other than contracts for the payment of money) or leases, deposits to secure public or statutory obligations, deposits to secure surety or appeal bonds, pledges or deposits in connection with contracts made with or at the request of the United States government or any agency thereof, or pledges or deposits for similar purposes in the ordinary course of business.

Limitation on Sale and Leaseback Transactions

Neither we nor any subsidiary will enter into any transaction with any bank, insurance company or other lender or investor, or to which any such lender or investor is a party, providing for the leasing to us or a subsidiary of any real property (except a lease for a temporary period not to exceed three years by the end of which it is intended that the use of such real property by the lessee will be discontinued) which has been or is to be sold or transferred by us or such subsidiary to such lender or investor or to any person to whom funds have been or are to be advanced by such lender or investor on the security of such real property unless either:

such transaction is the substantial equivalent of a mortgage, pledge, encumbrance, lien or security interest which we or any subsidiary would have been permitted to create under the covenant described in Limitation on Liens without equally and ratably securing all senior debt securities (including the notes) then outstanding under the indenture; or

within 120 days after such transaction we applied (and in any such case we covenant that we will so apply) an amount equal to the greater of:

the net proceeds of the sale of the real property leased pursuant to such transaction or

the fair value of the real property so leased at the time of entering into such transaction (as determined by our board of directors)

to the retirement of Funded Debt of SCI; provided that the amount to be applied to the retirement of Funded Debt of SCI shall be reduced by: (1) the principal amount of any senior debt securities outstanding under the indenture delivered within 120 days after such sale to the trustee for retirement and cancellation and (2) the principal amount of Funded Debt, other than senior debt securities outstanding under the indenture, voluntarily retired by us within 120 days after such sale; provided, that no retirement referred to in this clause (2) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision.

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Reports

Whether or not required by the Commission, so long as any notes are outstanding, we will furnish to the trustee and to any holders of the notes who so request, within 15 days of the time periods specified in the Commission s rules and regulations:

(1) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if we were required to file such Forms, including a Management s Discussion and Analysis of Financial Condition and Results of Operations and, with respect to the annual information only, a report on the annual financial statements by our independent accountants; and

(2) all current reports that would be required to be filed with the Commission on Form 8-K if we were required to file such reports.

In addition, whether or not required by the Commission, we will file a copy of all of the information and reports referred to in clauses (1) and (2) above with the Commission for public availability within the time periods specified in the Commission s rules and regulations (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. In addition, for so long as any notes remain outstanding, we will furnish to the holders and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Consolidation, Merger or Sale

We may consolidate or merge with or into any other corporation, and may sell, lease, exchange or otherwise dispose of all or substantially all of our property and assets to any other corporation authorized to acquire and operate the same, provided that in any such case

immediately after such transaction we or such other corporation formed by or surviving any such consolidation or merger, or to which such sale, lease, exchange or other disposition shall have been made, will not be in default in the performance or observance of any of the terms, covenants and conditions in the indenture to be kept or performed by us;

the corporation (if other than SCI) formed by or surviving any such consolidation or merger, or to which such sale, lease, exchange or other disposition shall have been made, shall be a corporation organized under the laws of the United States, any state thereof or the District of Columbia; and

the corporation (if other than SCI) formed by such consolidation, or into which we shall have been merged, or the corporation which shall have acquired or leased such property and assets, shall assume, by a supplemental indenture, our obligations under the indenture.

In case of any such consolidation, merger, sale, lease, exchange or other disposition and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for us, with the same effect as if it had been named in the indenture as SCI, and, except in the case of a lease, we shall be relieved of any further obligation under the indenture and any senior debt securities issued thereunder.

Discharge and Defeasance

We may discharge or defease our obligations with respect to the notes of either series as set forth below.

We may discharge all of our obligations (except those set forth below) to holders of the notes of either series that have not already been delivered to the trustee for cancellation and which either have become due and payable or are by their terms due and payable within one year (or are to be called for redemption within one year) by irrevocably depositing with the trustee cash or U.S. government

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obligations, or a combination thereof, as trust funds in an amount certified to be sufficient to pay when due the principal of, premium, if any, and interest on all outstanding notes of that series.

We may also discharge at any time all of our obligations (except those set forth below) to holders of the notes of either series (defeasance) if, among other things:

- we irrevocably deposit with the trustee cash or U.S. government obligations, or a combination thereof, as trust funds in an amount certified to be sufficient to pay the principal of, premium, if any, and interest on all outstanding notes of that series when due, and such funds have been so deposited for 91 days;

- such deposit will not result in a breach or violation of, or cause a default under, any agreement or instrument to which we are a party or by which we are bound; and

- we deliver to the trustee an opinion of counsel to the effect that the holders of such notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such defeasance, and that such defeasance will not otherwise alter the United States federal income tax treatment of principal, premium, if any, and interest payments on such notes. Such opinion of counsel must be based on a ruling of the Internal Revenue Service or a change in United States federal income tax law, since such a result would not occur under current tax law.

In the event of such discharge or defeasance of the notes of either series, the holders thereof would be entitled to look only to such trust funds for payment of the principal of, premium, if any, and interest on the notes of that series. Notwithstanding the preceding, no discharge or defeasance described above shall affect the following obligations to or rights of the holders of such notes:

(1) rights of registration of transfer and exchange of notes;

(2) rights of substitution of mutilated, defaced, destroyed, lost or stolen notes;

(3) rights of holders of notes to receive payments of principal thereof, premium, if any, and interest thereon when due from the trust funds held by the trustee;

(4) the rights, obligations, duties and immunities of the trustee;

(5) the rights of holders of notes as beneficiaries with respect to property deposited with the trustee payable to all or any of them; and

(6) our obligation to maintain an office or agency for notice, payments and transfers in respect of notes.

Modification of the Indenture

The indenture provides that SCI and the trustee may enter into supplemental indentures without the consent of any holders of senior debt securities outstanding thereunder to:

- evidence the assumption by a successor corporation of our obligations under the indenture;

- add covenants or make the occurrence and continuance of a default in such additional covenants a new Event of Default for the protection of the holders of such debt securities;

- cure any ambiguity or correct any inconsistency in the indenture or amend the indenture in any other manner which we may deem necessary or desirable and which will not adversely affect the interests of the holders of senior debt securities issued thereunder;

- establish the form or terms of any series of senior debt securities to be issued pursuant to the indenture;

evidence the acceptance of appointment by a successor trustee; or

secure such senior debt securities with any property or assets.

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The indenture also contains provisions permitting us and the trustee, with the consent of the holders of not less than a majority in aggregate principal amount of the notes of each series then outstanding, to add any provisions to, or change in any manner or eliminate any of the provisions of, the indenture or modify in any manner the rights of the holders of notes of that series; provided that neither we nor the trustee may, without the consent of the holder of each outstanding note of that series:

extend the stated maturity of the principal of such notes, reduce the principal amount thereof, reduce the rate or extend the time of payment of interest thereon, reduce or alter the method of computation of any amount payable on redemption thereof, change the coin or currency in which principal, premium, if any, and interest are payable, or impair or affect the right of any holder to institute suit for the enforcement of any payment thereof; or

reduce the percentage in aggregate principal amount of notes of that series, the consent of the holders of which is required for any such modification.

Events of Default

An Event of Default with respect to the notes of each series is defined as being any one or more of the following events:

(1) failure to pay any installment of interest on the notes of that series for 30 days;

(2) failure to pay the principal of or premium, if any, on any of the notes of that series when due;

(3) failure to perform any other of the covenants or agreements in the notes of that series or in the indenture that continues for a period of 60 days after being given written notice;

(4) if a court having jurisdiction enters a bankruptcy order or a judgment, order or decree adjudging SCI a bankrupt or insolvent, or an order for relief for reorganization, arrangement, adjustment or composition of or in respect of SCI and the judgment, order or decree remains unstayed and in effect for a period of 60 consecutive days;

(5) if we institute a voluntary case in bankruptcy, or consent to the institution of bankruptcy or insolvency proceedings against us, or file a petition seeking, or seek or consent to, reorganization, arrangement, composition or relief, or consent to the filing of such petition or to the appointment of a receiver, custodian, liquidator, assignee, trustee, sequestrator or similar official of SCI or of substantially all of our property, or we shall make a general assignment for the benefit of creditors; or

(6) default under any bond, debenture, note or other evidence of indebtedness for money borrowed by us or any subsidiary or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by us or any subsidiary (other than non-recourse indebtedness), whether such indebtedness exists on the date of the indenture or shall thereafter be created, which default shall have resulted in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, or any default in payment of such indebtedness (after the expiration of any applicable grace periods and the presentation of any debt instruments, if required), if the aggregate amount of all such indebtedness which has been so accelerated and with respect to which there has been such a default in payment shall exceed $10,000,000, without each such default and acceleration having been rescinded or annulled within a period of 30 days after there shall have been given to us by the trustee by registered mail, or to us and the trustee by the holders of at least 25 percent in aggregate principal amount of the notes of that series then outstanding, a written notice specifying each such default and requiring us to cause each such default and acceleration to be rescinded or annulled and stating that such notice is a Notice of Default under the indenture.

If an Event of Default with respect to the notes of either series then outstanding occurs and is continuing, then and in each and every such case, unless the principal of all of the notes of that series then

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outstanding shall have already become due and payable, either the trustee or the holders of not less than 25 percent in aggregate principal amount of the notes of that series then outstanding, by notice in writing to us (and to the trustee if given by holders of notes of that series), may declare the unpaid principal amount of all notes of that series then outstanding and the optional redemption premium, if any, and interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable. This provision, however, is subject to the condition that, if at any time after the unpaid principal amount of such notes shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, we shall pay or shall deposit with the trustee a sum sufficient to pay all matured installments of interest upon all such notes and the principal of any and all notes of that series which shall have become due otherwise than by acceleration (with interest on overdue installments of interest to the extent that payment of such interest is enforceable under applicable law and on such principal at the rate borne by such notes to the date of such payment or deposit) and the reasonable compensation, disbursements, expenses and advances of the trustee, and any and all defaults under the indenture, other than the nonpayment of such portion of the principal amount of and accrued interest on such notes which shall have become due by acceleration, shall have been cured or shall have been waived in accordance with the indenture or provision deemed by the trustee to be adequate shall have been made therefor, then and in every such case the holders of a majority in aggregate principal amount of the notes of that series then outstanding, by written notice to us and to the trustee, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon. If any Event of Default with respect to us specified in clause (4) or (5) above occurs, the unpaid principal amount and accrued interest on all notes then outstanding shall *ipso facto* become and be immediately due and payable without any declaration or other act by the trustee or any holder of such notes.

If the trustee shall have proceeded to enforce any right under the indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the trustee, then and in every such case we, the trustee and the holders of such series of notes shall be restored respectively to their several positions and rights under the indenture, and all rights, remedies and powers of SCI, the trustee and the holders of such notes shall continue as though no such proceeding had been taken. Except with respect to an Event of Default pursuant to clause (1) or (2) above, the trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to the trustee by us, a paying agent or any holder of the notes.

The indenture provides that, subject to the duty of the trustee during default to act with the required standard of care, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders of a series of the notes, unless such holders shall have offered to the trustee reasonable security or indemnity.

No holder of notes of either series then outstanding shall have any right by virtue of or by availing of any provision of the indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to the indenture or the notes of that series or for the appointment of a receiver or trustee or similar official, or for any other remedy under the indenture or under such notes, unless such holder previously shall have given to the trustee written notice of default and of the continuance thereof, and unless the holders of not less than 25 percent in aggregate principal amount of notes of that series then outstanding shall have made written request to the trustee to institute such action, suit or proceeding in its own name as trustee and shall have offered to the trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding. Notwithstanding any other provisions in the indenture, however, the right of any holder of the notes to receive payment of the principal of, premium, if any, and interest on such notes, on or after the respective due dates expressed in such notes, or to institute suit for the

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enforcement of any such payment on or after such respective dates shall not be impaired or affected without the consent of such holder.

The holders of at least a majority in aggregate principal amount of notes of either series then outstanding shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee with respect to the notes of that series; provided that (subject to certain exceptions) the trustee shall have the right to decline to follow any such direction if the trustee shall determine upon advice of counsel that the action or proceeding so directed may not lawfully be taken or if the trustee in good faith shall determine that the action or proceeding so directed would involve the trustee in personal liability. The holders of 66^{2}/3% in aggregate principal amount of the notes of either series then outstanding may on behalf of the holders of all of such notes waive any past default or Event of Default with respect to that series and its consequences except a default in the payment of premium, if any, or interest on, or the principal of, such notes. Upon any such waiver we, the trustee and the holders of all notes of that series shall be restored to our and their former positions and rights under the indenture, respectively; but no such waiver shall extend to any subsequent or other default or Event of Default with respect to that series or impair any right consequent thereon. Whenever any default or Event of Default shall have been waived as permitted, said default or Event of Default with respect to either series of notes shall for all purposes of the notes of that series and the indenture be deemed to have been cured and to be not continuing.

The trustee shall, within 90 days after the occurrence of a default with respect to the notes of either series then outstanding, mail to all holders of such notes, as the names and the addresses of such holders appear upon the notes register, notice of all defaults known to the trustee with respect to such notes, unless such defaults shall have been cured before the giving of such notice (the term defaults for the purpose of these provisions being hereby defined to be the events specified in clauses (1), (2), (3), (4), (5) and (6) above, not including periods of grace, if any, provided for therein and irrespective of the giving of the written notice specified in said clause (3) or (6) but in the case of any default of the character specified in said clause (3) or (6) no such notice to holders of notes shall be given until at least 60 days after the giving of written notice thereof to us pursuant to said clause (3) or (6), as the case may be); provided, that, except in the case of default in the payment of the principal of, premium, if any, or interest on any of the notes of that series, the trustee shall be protected in withholding such notice if and so long as the trustee in good faith determines that the withholding of such notice is in the best interests of the holders of such notes.

We are required to furnish to the trustee annually a statement as to the fulfillment by us of all of our obligations under the indenture.

Governing Law

The indenture and the notes are governed by the laws of the State of Texas.

Definitions

For all purposes of the indenture and this prospectus, the following terms shall have the respective meanings set forth below (except as otherwise expressly provided or unless the context otherwise clearly requires). All accounting terms used in the indenture and herein and not expressly defined shall have the meanings assigned to such terms in accordance with generally accepted accounting principles, and the term generally accepted accounting principles means such accounting principles as are generally accepted in the United States at the date of the initial issuance of the notes.

Adjusted Consolidated Net Tangible Assets means, at the time of determination, the aggregate amount of total assets included in SCI s most recent quarterly or annual consolidated balance sheet

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prepared in accordance with generally accepted accounting principles, net of applicable reserves reflected in such balance sheet, after deducting the following amounts reflected in such balance sheet:

goodwill;

deferred charges and other assets;

preneed funeral receivables and trust investments;

preneed cemetery receivables and trust investments;

cemetery perpetual care trust investments;

current assets of discontinued operations;

non-current assets of discontinued operations;

other like intangibles; and

current liabilities (excluding, however, current maturities of long-term debt).

Adjusted Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Attributable Indebtedness, when used with respect to any sale and leaseback transaction, means, at the time of determination, the present value (discounted at the rate set forth or implicit in the terms of the lease included in such transaction) of the total obligations of the lessee for rental payments (other than amounts required to be paid on account of property taxes, maintenance, repairs, insurance, assessments, utilities, operating and labor costs and other items that do not constitute payments for property rights) during the remaining term of the lease included in such transaction (including any period for which such lease has been extended). In the case of any lease that is terminable by the lessee upon the payment of a penalty or other termination payment, such amount shall be the lesser of the amount determined assuming termination upon the first date such lease may be terminated (in which case the amount shall also include the amount of the penalty or termination payment, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated) or the amount determined assuming no such termination.

Capital Stock means:

in the case of a corporation, corporate stock;

in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing person.

Comparable Treasury Issue means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

Comparable Treasury Price means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the trustee obtains fewer than three such Reference Treasury Dealer Quotations, the average of all

such Quotations.

Credit Facilities means one or more debt facilities with banks or other institutional lenders providing for revolving credit or term loans or letters of credit.

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Funded Debt means indebtedness for money borrowed which by its terms matures at or is extendible or renewable at the option of the obligor to a date more than 12 months after the date of the creation of such indebtedness.

The term holder means, in the case of any note, the person in whose name such note is registered in the security register kept by the Company for that purpose in accordance with the terms of the indenture.

The term person means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

Quotation Agent means the Reference Treasury Dealer appointed by SCI.

Perpetual Care Trust means a trust established to provide perpetual care or maintenance for any cemetery, mausoleum or columbarium.

Pre-Need Trust means a trust established to hold funds related to the purchase of funeral or cemetery goods or services on a pre-need basis.

Reference Treasury Dealer means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated (and its successors), Banc of America Securities LLC (and its successors) and any other nationally recognized investment banking firm that is a primary U.S. government securities dealer specified from time to time by SCI.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by SCI, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer as of 5:00 p.m., New York time, on the third business day preceding the redemption date.

The term subsidiary means, with respect to any person:

(1) any corporation, association, limited liability company or other business entity (other than a partnership) of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, buy such person or one or more of the other subsidiaries of that person (or a combination thereof); and

(2) any partnership (a) the sole general partner or the managing general partner of which is such person or a subsidiary of such person or (b) the only general partners of which are such person or of one or more subsidiaries of such person (or any combination thereof);

provided, however, that no Pre-Need Trust or Perpetual Care Trust shall be deemed to be a subsidiary for purposes of the indenture.

Paying Agent and Registrar for the Notes

The trustee will initially act as paying agent and registrar with respect to each series of notes. We may change the paying agent or registrar without prior notice to the holders of the notes, and we may act as paying agent or registrar.

Transfer and Exchange

Subject to the transfer restrictions described in Book-Entry, Delivery and Form and Notice to Investors, a holder may transfer or exchange notes in accordance with the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer

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documents and we may require a holder to pay any taxes or other governmental charges that may be imposed in connection with any registration of transfer of the notes.

The registered holder of a note will be treated as its owner for all purposes.

Notices

Notices to holders of the notes will be given by mail to the addresses of such holders as they appear in the security register.

No Personal Liability of Officers, Directors or Stockholders

No director, officer or stockholder, as such, of SCI will have any personal liability in respect of our obligations under the indenture or the notes by reason of his, her or its status as such.

Concerning the Trustee

The Bank of New York Trust Company, N.A., as successor to The Bank of New York, is the trustee under the indenture.

The indenture contains certain limitations on the right of the trustee, should it become our creditor, to obtain payment of claims in certain cases, or to realize for its own account on certain property received in respect of any such claim as security or otherwise. The trustee is permitted to engage in certain other transactions. However, if it acquires any conflicting interest within the meaning of the indenture after a default has occurred and is continuing, it must eliminate the conflict within 90 days, apply to the Commission for permission to continue as trustee or resign.

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UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of certain United States federal income tax consequences relating to exchanging Old Notes for New Notes. This discussion is not a complete discussion of all the potential tax consequences that may be relevant to you. Your tax treatment may vary depending on your particular situation. This summary does not address all of the tax consequences that may be relevant to holders that are subject to special tax treatment. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations thereunder, published rulings, and court decisions, all as in effect on the date of this document, and all of which are subject to change, possibly on a retroactive basis. We have not sought any ruling from the Internal Revenue Service or an opinion of counsel with respect to the statements made herein concerning the exchange of the notes, and we cannot assure you that the Internal Revenue Service will agree with such statements.

We encourage you to consult your own tax advisors regarding the particular United States federal tax consequences that may be relevant to you, as well as any tax consequences that may arise under the laws of any relevant foreign, state, local, or other taxing jurisdiction or under any applicable tax treaty.

Your exchange of Old Notes for New Notes under the exchange offer will not constitute a taxable exchange of the Old Notes. As a result:

you will not recognize taxable gain or loss when you receive New Notes in exchange for Old Notes;

your holding period in the New Notes will include your holding period in the Old Notes; and

your basis in the New Notes will equal your adjusted basis in the Old Notes at the time of the exchange.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS OF NOTES FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH HOLDERS UNDER THE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS OF NOTES ARE ENCOURAGED TO SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

ERISA CONSIDERATIONS

If you intend to use plan assets to exchange for any of the New Notes offered by this prospectus, you should consult with counsel on the potential consequences of your investment under the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the prohibited transaction provisions of ERISA and the Code.

The following summary is based on the provisions of ERISA and the Code and related guidance in effect as of the date of this prospectus. This summary does not attempt to be a complete summary of these considerations. Future legislation, court decisions, administrative regulations or other guidance could change the requirements summarized in this section. Any of these changes could be made retroactively and could apply to transactions entered into before the change is enacted.

Fiduciary Responsibilities

ERISA imposes requirements on (1) employee benefit plans subject to ERISA, (2) entities whose underlying assets include employee benefit plan assets, for example, collective investment funds and insurance company general accounts, and (3) fiduciaries of employee benefit plans. Under ERISA, fiduciaries generally include persons who exercise discretionary authority or control over plan assets. Before

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investing any employee benefit plan assets in any note offered in connection with this prospectus, you should determine whether the investment:

(1) is permitted under the plan document and other instruments governing the plan; and

(2) is appropriate for the plan in view of its overall investment policy and the composition and diversification of its portfolio, taking into account the limited liquidity of the notes.

You should consider all factors and circumstances of a particular investment in the notes, including, for example, the risk factors discussed in Risk Factors and the fact that in the future there may not be a market in which you will be able to sell or otherwise dispose of your interest in the notes.

We are not making any representation that the sale of any notes to a plan meets the fiduciary requirements for investment by plans generally or any particular plan or that such an investment is appropriate for plans generally or any particular plan. We are not providing any investment advice to any plan, through this prospectus or otherwise.

Prohibited Transactions

ERISA and the Code prohibit a wide range of transactions involving (1) employee benefit plans and arrangements subject to ERISA and/or the Code, and (2) persons who have specified relationships to the plans. These persons are called parties in interest under ERISA and disqualified persons under the Code. The transactions prohibited by ERISA and the Code are called prohibited transactions. If you are a party in interest or disqualified person who engages in a prohibited transaction, you may be subject to excise taxes and other penalties and liabilities under ERISA and/or the Code. As a result, if you are considering using plan assets to invest in any of the notes offered for sale in connection with this prospectus, you should consider whether the investment might be a prohibited transaction under ERISA and/or the Code.

Prohibited transactions may arise, for example, if the notes are acquired by a plan with respect to which we, the initial purchasers or any of our respective affiliates, are parties in interest or disqualified persons. Exemptions from the prohibited transaction provisions of ERISA and the Code may apply depending in part on the type of plan fiduciary making the decision to acquire a note and the circumstances under which such decision is made. Some of these exemptions include:

(1) Prohibited transaction class exemption or PTCE exemption 75-1 (relating to specified transactions involving employee benefit plans and broker-dealers, reporting dealers and banks);

(2) PTCE 84-14 (relating to specified transactions directed by independent qualified professional asset managers);

(3) PTCE 90-1 (relating to specified transactions involving insurance company pooled separate accounts);

(4) PTCE 91-38 (relating to specified transactions by bank collective investment funds);

(5) PTCE 95-60 (relating to specified transactions involving insurance company general accounts); and

(6) PTCE 96-23 (relating to specified transactions directed by in-house asset managers).

These exemptions do not, however, provide relief from the self-dealing and conflicts of interests prohibitions under ERISA and the Code. In addition, there is no assurance that any of these class exemptions or other exemptions will be available with respect to any particular transaction involving the notes.

Treatment of Insurance Company Assets as Plan Assets

Any insurance company proposing to invest assets of its general account in the notes should consider the potential implications of the U.S. Supreme Court s decision in *John Hancock Mutual Life Insurance*

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Co. v. Harris Trust and Savings Bank, 510 U.S. 86, 114 S. Ct. 517 (1993), which, in some circumstances, treats such general account as including the assets of a plan that owns a policy or other contract with such insurance company, as well as the potential effect of Section 401(c) of ERISA, PTCE 95-60, and Department of Labor Regulations Section 2550.401c-1.

Foreign Indicia of Ownership

ERISA also prohibits plan fiduciaries from maintaining the indicia of ownership of any plan assets outside the jurisdiction of the United States district courts except in specified cases. Before investing in any note offered for sale in connection with this prospectus, you should consider whether the acquisition, holding or disposition of a note would satisfy such indicia of ownership rules.

Representations and Warranties

If you acquire or accept a note offered in connection with this prospectus, you and any subsequent transferee will be deemed to have represented and warranted that either:

(1) you have not, directly or indirectly, used plan assets to acquire such note;

(2) your acquisition and holding of a note (A) is exempt from the prohibited transaction restrictions of ERISA and the Code under one or more prohibited transaction class exemptions or does not constitute a prohibited transaction under ERISA and the Code, and (B) meets the fiduciary requirements of ERISA; or

(3) if you use plan assets to acquire such note and you are not otherwise subject to ERISA, such acquisition is in compliance with the applicable laws governing such plan.

BOOK-ENTRY, DELIVERY AND FORM

Global Notes

Notes of each series issued in accordance with Rule 144A initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the Rule 144A global note). Any notes of either series issued in accordance with Regulation S initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the Regulation S global note). Any notes of either series resold to Institutional Accredited Investors following the completion of this offering initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the IAI global note and, together with the Rule 144A global note and the Regulation S global note respecting the same series of notes, the global notes). The global notes of each series will be deposited upon issuance with the trustee, as custodian for DTC, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below.

Each global note (including beneficial interests in the global note) will be subject to certain restrictions on transfer and will bear restrictive legends. Beneficial interests in the Regulation S global note may be transferred to a person that takes delivery in the form of an interest in the Rule 144A global note or the IAI global note of the same series, and beneficial interests in the Rule 144A global note or the IAI global note may be transferred to a person that takes delivery in the form of an interest in the Regulation S global note of the same series, only in the limited circumstances described below. See Transfers of Interests in One Global Note for Interests in Another Global Note.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. In addition, transfers of beneficial interests in the global notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear System (Euroclear) or Clearstream Banking, Societe Anonyme (Clearstream) (as indirect participants in DTC)), which may change from

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time to time. Beneficial interests in the global notes may not be exchanged for notes in certificated form except in the limited circumstances described below. See ø Transfers of Interests in Global Notes for Certificated Notes.

Transfers of Interests in One Global Note for Interests in Another Global Note

Prior to the expiration of the 40th day after the later of the commencement of this offering and the original issue date of the notes (such period through and including such 40th day, the Restricted Period), a beneficial interest in the Regulation S global note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A global note or the IAI global note of the same series, only upon receipt by the trustee of a written certification on behalf of the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with the restrictions on transfer set forth in the indenture. After the expiration of the Restricted Period, this certification requirement will no longer apply to such transfers.

A person who holds a beneficial interest in the Rule 144A global note or the IAI global note may transfer its interest to a person who takes delivery in the form of a beneficial interest in the Regulation S global note of the same series, whether before or after the expiration of the Restricted Period, only upon receipt by the trustee of a written certification from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S.

A person who holds a beneficial interest in the Rule 144A global note may transfer its beneficial interest to a person who takes delivery in the form of a beneficial interest in the IAI global note of the same series, or vice versa, only upon receipt by the trustee of a written certification from the transferor to the effect that such transfer is being made in accordance with the restrictions on transfer set forth in the indenture.

Any beneficial interest in one of the global notes that is exchanged for an interest in another global note of the same series will cease to be an interest in such global note and will become an interest in the other global note. Accordingly, such interest will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Any exchange of a beneficial interest in one global note for a beneficial interest in another global note of the same series or vice versa will be effected in DTC by means of an instruction originated by the trustee through the DTC Deposit/Withdraw at Custodian (DWAC) system. Accordingly, in connection with any such exchange, appropriate adjustments will be made in the records of the note registrar to reflect a decrease in the principal amount of the one global note and a corresponding increase in the principal amount of the other global note.

Transfers of Interests in Global Notes for Certificated Notes

A beneficial interest in a global note may not be exchanged for a note of the same series in certificated form unless:

(1) DTC (a) notifies us that it is unwilling or unable to continue as depositary for the global note or (b) has ceased to be a clearing agency registered under the Exchange Act, and in either case we thereupon fail to appoint a successor depositary within 90 days, or

(2) an Event of Default has occurred with respect to such notes and DTC notifies the trustee of its decision to exchange the global note for notes in certificated form.

In all cases, certificated notes delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures). Neither we nor the trustee will be liable for any error or delay by or on behalf of the depositary in identifying the beneficial owners of the notes. Any

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certificated note issued in exchange for an interest in a global note will bear the legend restricting transfers unless the legend is not required by applicable law.

Certain Book-Entry Procedures for Global Notes

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream that follow are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. We take no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters. DTC has advised us that it is:

a limited purpose trust company organized under the laws of the State of New York,

a banking organization within the meaning of the New York Banking Law,

a member of the Federal Reserve System, and

a clearing corporation within the meaning of the Uniform Commercial Code and a Clearing Agency registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants (participants) and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. Direct participants include securities brokers and dealers (including the initial purchasers), banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly (indirect participants).

DTC has advised us that its current practice, upon deposit of a global note, is to credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts with DTC of the participants through which such interests are to be held. Ownership of beneficial interest in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominees (with respect to interests of participants) and the records of participants and indirect participants (with respect to interests of persons other than participants).

As long as DTC, or its nominee, is the registered holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner and holder of the notes represented by such global note for all purposes under the indenture and the notes. Except in the limited circumstances described above under Transfers of Interests in Global Notes for Certificated Notes, owners of beneficial interests in a global note will not be entitled to have any portions of such global note registered in their names, and will not receive or be entitled to receive physical delivery of notes in certificated form and will not be considered the owners or holders of the global note (or any notes represented thereby) under the indenture or the notes.

Investors may hold their interests in the global notes directly through DTC, if they are participants in such system, or indirectly through organizations (including Euroclear and Clearstream) which are participants in such system. Euroclear and Clearstream will hold interests in the global notes on behalf of their participants through customers securities accounts in their respective names on the books of their respective depositories. The depositories, in turn, will hold such interests in the global notes in customers securities accounts in the depositories names on the books of DTC. All interests in a global note, including those held through Euroclear or Clearstream, will be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream will also be subject to the procedures and requirements of such system. Transfers of beneficial interests in a global note will also be subject to the procedures described above under Transfers of Interests in One Global Note for Interests in Another Global Note, if applicable.

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The laws of some states require that certain persons take physical delivery in certificated form of securities that they own. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited to that extent. Because DTC can act only on behalf of its participants, which in turn act on behalf of indirect participants, the ability of a person having beneficial interests in a global note to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Payments of the principal of, premium, if any, and interest on global notes will be made to DTC or its nominee as the registered owner thereof. Neither SCI, the trustee nor any of their respective agents will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We expect that DTC or its nominee, upon receipt of any payment of principal of, premium, if any, or interest in respect of a global note representing any notes held by it or its nominee, will credit participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note for such notes as shown on the records of DTC. We also expect that payments by participants to owners of beneficial interests in such global note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in street name. Such payments will be the responsibility of such participants. Neither we nor the trustee will be liable for any delay by DTC or any of its participants in identifying the beneficial owners of the notes, and we and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee as the registered owner of the notes for all purposes.

Except for trades involving only Euroclear and Clearstream participants, beneficial interests in the global notes will trade in DTC s Same-Day Funds Settlement System and secondary market trading activity in such interests will therefore settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its participants. Transfers between participants in DTC will be effected in accordance with DTC s procedures, and will be settled in same-day funds. Transfers between indirect participants (other than those who hold a beneficial interest in the notes through Euroclear or Clearstream) who hold their interest through a participant will be effected in accordance with the procedures of such participant but generally will settle in same-day funds. Transfers between participants who hold beneficial interests in the notes through Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described elsewhere herein, cross-market transfers between DTC participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected by its depository through DTC in accordance with DTC s rules on behalf of Euroclear or Clearstream, as the case may be; however, such crossmarket transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its depositary to take action to effect final settlement on its behalf by delivering or receiving beneficial interests in the relevant global note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing a beneficial interest in a global note from a DTC participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the DTC settlement date. Cash received in Euroclear or Clearstream as a result of sales of

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beneficial interests in a global note by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following the DTC settlement date.

DTC has advised us that it will take any action permitted to be taken by a holder of notes only at the direction of one or more participants to whose accounts with DTC beneficial interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the notes of either series, DTC reserves the right to exchange the global notes for legended notes of that series in certificated form, and to distribute such notes to its participants. See Transfers of Interests in Global Notes for Certificated Notes.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfer of beneficial interests in the global notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither SCI, the trustee nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear, Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations, including maintaining, supervising or reviewing the records relating to or payments made on account of, beneficial interests in global notes.

EXCHANGE OFFER AND REGISTRATION RIGHTS

We entered into registration rights agreements with the initial purchasers on the original issue date of the notes. In the registration rights agreements, we agreed for the benefit of the holders of each series of the notes that we will use our best efforts to file with the SEC and cause to become effective this exchange offer registration statement relating to offers to exchange each series of Old Notes for an issue of SEC-registered New Notes with terms identical to such series of Old Notes (except that the New Notes will not be subject to restrictions on transfer or to any increase in annual interest rate as described below).

When the SEC declares this exchange offer registration statement effective, we will offer a series of New Notes in return for each series of Old Notes. Each exchange offer will remain open for at least 20 business days after the date we mail notice of such exchange offer to noteholders. For each Old Note surrendered to us under an exchange offer, the holder who surrendered such Old Note will receive a New Note of equal principal amount. Interest on each New Note will accrue from the last interest payment date on which interest was paid on the applicable series of notes or, if no interest has been paid on the applicable series of notes, from the original issue date of the notes.

If applicable interpretations of the staff of the SEC do not permit us to effect the exchange offers, we will use our best efforts to cause to become effective a shelf registration statement relating to resales of Old Notes and to keep that shelf registration statement effective until the expiration of the time period referred to in Rule 144(k) under the Securities Act, or such shorter period that will terminate when all Old Notes covered by the shelf registration statement have been sold. We will, in the event of such a shelf registration, provide to each noteholder copies of a prospectus, notify each noteholder when the shelf registration statement has become effective and take certain other actions to permit resales of each series of Old Notes. A noteholder that sells Old Notes under the shelf registration statement generally will be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with those sales and will be bound by the provisions of the registration rights agreement that are applicable to such noteholder (including certain indemnification obligations).

If (a) this exchange offer registration statement is not filed with the Commission on or prior to the 90th day following the date of original issuance of the notes, (b) this exchange offer registration statement is not declared effective on or prior to the 180th day following the date of original issuance of the notes or

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(c) the exchange offer with respect to a series of notes is not completed (or, if required, the shelf registration statement is not declared effective) on or prior to the 210th day following the date of original issuance of the notes (each such event referred to in classes (a) through (c) above a Registration Default), the annual interest rate borne by such series of notes will be increased by 0.25% per annum upon the occurrence of each Registration Default, which rate will increase by 0.25% each 90-day period that such additional interest continues to accrue, up to a maximum additional rate of 1.00% per annum. Following the cure of all Registration Defaults, additional interest will cease to accrue and the interest rate shall revert to the original interest rate unless a new Registration Default shall occur.

If we effect the exchange offers, we will be entitled to close the exchange offers 20 business days after their commencement, *provided* that we have accepted all Old Notes of the applicable series validly surrendered in accordance with the terms of the applicable exchange offer. Old Notes not tendered in an exchange offer shall bear interest at the rate set forth on the cover page of this prospectus and be subject to all the terms and conditions specified in the applicable supplemental indenture, including transfer restrictions.

This summary of the provisions of the registration rights agreements does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the registration rights agreements, copies of which are available from us upon request.

PLAN OF DISTRIBUTION

Based on interpretations by the staff of the Commission set forth in no action letters issued to third parties, we believe that you may transfer New Notes issued under the exchange offer in exchange for Old Notes unless you are:

our affiliate within the meaning of Rule 405 under the Securities Act;

a broker-dealer that acquired Old Notes directly from us; or

a broker-dealer that acquired Old Notes as a result of market-making or other trading activities without compliance with the registration and prospectus delivery provisions of the Securities Act;

provided that you acquire the New Notes in the ordinary course of your business and you are not engaged in, and do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the New Notes. Broker-dealers receiving New Notes in the exchange offer will be subject to a prospectus delivery requirement with respect to resales of the New Notes.

To date, the staff of the Commission has taken the position that participating broker-dealers may fulfill their prospectus delivery requirements with respect to transactions involving an exchange of securities such as this exchange offer, other than a resale of an unsold allotment from the original sale of the Old Notes, with the prospectus contained in the exchange offer registration statement.

Each broker-dealer that receives New Notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired as a result of market-making activities or other trading activities. In addition, until August 21, 2007, all dealers effecting transactions in the New Notes may be required to deliver a prospectus.

We will not receive any proceeds from any sale of New Notes by broker-dealers. New Notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the New Notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such New

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Notes. Any broker-dealer that resells New Notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such New Notes may be deemed to be an underwriter within the meaning of the Securities Act and any profit on any such resale of New Notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act.

We have agreed to pay all expenses incident to the exchange offer (including the expenses of one counsel for the holders of the notes), other than commissions or concessions of any brokers or dealers, and will indemnify the holders of the notes (including any broker-dealers) against specified liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity and enforceability of the notes offered hereby will be passed upon for Service Corporation International by Locke Liddell & Sapp LLP, Houston, Texas.

EXPERTS

The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2006 have been so incorporated in reliance on the report (which contains an explanatory paragraph on management s assessment of the effectiveness of internal control over financial reporting and on the effectiveness of internal control over financial reporting due to the exclusion of Alderwoods Group, Inc. from the assessment of internal control over financial reporting because it was acquired by the Company in a purchase business combination during the fourth quarter of 2006) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated balance sheets of Alderwoods as of December 31, 2005 and January 1, 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for the fifty-two weeks ended December 31, 2005, the fifty-two weeks ended January 1, 2005, and the fifty-three weeks ended January 3, 2004, incorporated in this prospectus by reference to Exhibit 99.B to Current Report on Form 8-K/A dated February 12, 2007 have been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report appearing in such Form 8-K/A.

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The exchange agent for the exchange offer is:
Global Bondholder Services Corporation
By facsimile:
(For Eligible Institutions only):
(212) 430-3775
Confirmation:
(212) 430-3774

By Mail:	*By Overnight Courier:*	*By Hand:*
65 Broadway Suite 723 New York, NY 10006	65 Broadway Suite 723 New York, NY 10006	65 Broadway Suite 723 New York, NY 10006

Any questions or requests for assistance or for additional copies of the prospectus or the letter of transmittal may be directed to the information agent at the telephone numbers set forth below.

The information agent for the exchange offer is:
Global Bondholder Services Corporation
65 Broadway Suite 723
New York, NY 10006
Attn: Corporate Actions
Banks and Brokers call: (212) 430-3774
Toll free (866) 873-7700

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We have not authorized any dealer, salesperson or other person to give you written information other than this prospectus or to make representations as to matters not stated in this prospectus. You must not rely on unauthorized information. This prospectus is not an offer to sell the notes or our solicitation of your offer to buy the notes in any jurisdiction where that would not be permitted or legal. Neither the delivery of this prospectus nor any sales made hereunder after the date of this prospectus shall create an implication that the information contained herein or the affairs of the company have not changed since the date of this prospectus.

Until August 21, 2007, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unused allotments or subscriptions.

Service Corporation International
Offer to Exchange
Registered 6.75% Senior Notes due 2015
Registered 7.50% Senior Notes due 2027
for
All Outstanding 6.75% Senior Notes due 2015 issued on April 9, 2007
All Outstanding 7.50% Senior Notes due 2027 issued on April 9, 2007
($400,000,000 aggregate principal amount outstanding)

PROSPECTUS

July 11, 2007

	Quarter 3	Quarter 4
Net Sales	$ 35,400	$ 41,355

$	81,860
$	191,752
Gross Profit	15,868

	18,016
	23,285
	27,546
Net Income	

8,515

4,621

10,773

11,479

Net Income Per Share

Basic				
	0.30			
	0.16			
	0.37			
	0.37			

Diluted

0.22

0.12

0.28

0.28

Contractual Obligations and Off Balance Sheet Transactions

The following table summarizes the Company's significant contractual obligations at March 31, 2009

(In millions)

	Payment due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term Debt	$ 18.0	$ 2.7	$ 15.3	—	—
Operating Leases	$ 7.3	$ 0.8	$ 1.6	$ 1.6	$ 3.3
Milestone payments relating to various product development agreements	$ 0.7	$ 0.3	$ 0.4	—	—

The events that would trigger the milestone payments relating to various product development agreements include signing the agreement, transfer of technology, passing the bio-equivalency study, filing of the ANDA, approval of the ANDA, and commercial launch of the product. The determination of milestone payments assumes all of the conditions are satisfied and does not include profit-sharing, which cannot be estimated.

There are no other contractual obligations requiring disclosure.

Off Balance Sheet Transactions

None

Future Outlook

Though Fiscal 2009 has seen several challenges in manufacturing and compliance, we believe that the steps that we have taken will provide for a better outcome going forward. We have hired experienced people in these areas to correct such areas where we may be deficient. Further, we have third party consultants that are providing guidance on remediation for such improvements. Sun Pharma has provided assistance and guidance from its own corporate quality group. It also continues to provide improvements for our quality systems. We believe the Company's future performance in these areas will be capable of supporting our efforts in providing a quality product on time to satisfy our customers' needs. Though near term sales of manufactured products may face some challenges, we believe we are effecting the changes required to improve our performance on manufactured product sales on a long term basis. We will continue to compete effectively in the market we serve. Due to our size and management structure, we believe that we will execute our plan effectively, on a long term basis. We are disciplined and have the aptitude to execute our plan. Though we have made considerable improvements in our quality systems, we still have improvements to implement and measure as part of our continual improvement process. With this in mind, we believe we are substantially compliant with cGMP. We continue to invest in improved systems, equipment, training and personnel in quality assurance, quality control and manufacturing to improve our overall performance in quality. We have added considerable amount of infrastructure in quality and expect that we will continue to add additional infrastructure in manufacturing.

The expansion of our facilities should provide the capacity we need to supply our customers effectively. Our training and succession planning is being enhanced to support our growth and predict future operational efficiencies. We are working with local universities and technical schools in order to provide the proper talented employees required to perform in a highly regulated business. We anticipate improved productivity as our staff continues to increase their experience in their respective positions. Our platform is poised for growth. We have the capacity, infrastructure and capability to perform well in the industry. The personnel that we have added have improved the competency level which should improve the performance of our manufacturing and quality areas. Our distribution and marketing capability continues to offer its standard of excellence to maximize our market share.

Currently, we have 29 ANDAs pending approval at the FDA (including four tentative approvals) or 25 products. We continue to upgrade our facilities, attract and hire talented individuals and expand our customer base. Based on our own development pipeline and the current agreements we have with Sun Pharma along with other third party developers, we believe we will continue to perform well in our industry. Though we remain hopeful, the uncertainty of the timelines associated with new approvals based on our status with the FDA limits our view on our growth in the near term. Since FDA approvals are a significant part of any generic pharmaceutical company's growth we have determined that we will not provide any further guidance related to our top line growth. We remain confident that our reporting of our basic fundamental performance over the course of Fiscal 2010 will provide sufficient disclosure to our shareholders and others. The recent voluntary recalls previously disclosed, have had a negative impact on the Company's performance and may continue to have a negative impact in the near term. We remain confident that our implementation of corrective actions in compliance and quality will ultimately let us gain back our momentum of sales growth that we have enjoyed over the last several years. We have a successful marketing platform and also have Sun Pharma's product line to complement our manufacturing products business.

We now have twenty-two products, that we market (including our own manufactured products and those distributed on behalf of Sun Pharma), whose market share is ranked third or higher against the same products of our generic competitors. Based on our own development pipeline and the current agreements we have with Sun Pharma along with other third party developers we believe we will continue to perform well and achieve considerable growth in sales for Fiscal 2010, as compared to Fiscal 2009.

Although gross profit margins may come down over time due to price erosion, we remain confident that our sales growth, expanding product portfolio and successful execution of our business plan will offset any long-term impact. However, should the pricing pressures become more severe than anticipated, the result may be lower growth rates and gross margins. Management has and will continue to work diligently to counter the pricing pressures through increased sales volumes, expansion of our customer base, improved productivity, and better cost absorption of operational overheads, cost reductions and increased development plans. The balance of sales between distributed products and manufactured products remains an unknown and is based on the amount of approvals in each segment and also the timing of those approvals. Subsequently the margin percentage may come down due to a heavier weight of distributed product sales The Company will manage itself accordingly so that we have the proper level of personnel to operate and support the manufactured products sales. Additional overheads are not generally required to support the distribution product sales. Though there are some additional expenses to distribute these products we do not add personnel to support these sales.

We intend to aggressively move forward with the development of new products. While the development of new products will increase our cash R&D expense and impact EPS, we believe that we will continue to have the cash and other means available to meet increased working capital requirements, fund potential litigation expenses relating to Paragraph IV certification and finance further capital investments. Product development is a critical element in meeting expectations in the future.

We believe that Sun Pharma is a partner with a proven track record, and one that already has provided the Company with quality products. Moreover, Sun Pharma's increased beneficial ownership in the Company to approximately 74% (approximately 76% including the convertible Series B Preferred Stock), should, we believe, provide it with the vested interest to continue to help the Company succeed. Sun Pharma has previously provided the Company with capital, loans, guarantees of loans, personnel, raw materials and equipment, which have significantly helped the Company to date. In addition to the Sun Pharma products agreement, we have implemented additional development strategies with various third parties, both domestically and abroad, that will complement the Sun Pharma's development pipeline.

During Fiscal 2007, we entered into three definitive agreements with different companies to develop four additional ANDAs for Caraco and provide additional opportunities for the future development of products. These agreements contain, for three products, both milestone payments to be paid in cash and profit sharing based upon future sales for a defined period, and for one product only milestone payments in cash without any obligation to share profits in the future. During Fiscal 2008, we have signed two definitive agreements for two additional products. However we have terminated an agreement earlier entered into with one company for two of these products. During Fiscal 2009, we entered into one agreement for one additional product, and subsequent to end of Fiscal 2009, we entered into one more agreement relating to one additional product. This brings the total number of products being developed by unaffiliated third party developers to six.

We anticipate additional development agreements will be entered into should we define any future gaps in our calendar of approvals that we anticipate from the FDA. We expect these agreements to run parallel to our own internal product development. In order to improve the amount of filings during Fiscal 2009, we continued to fortify our own research and development team by increasing the number of products we have in development internally. We filed ten ANDAs in Fiscal 2009, covering nine products, whereas we filed seven products in Fiscal 2008.

As previously mentioned, in Fiscal 2007 we entered into a definitive agreement to market Sun Pharma ANDAs that are either approved or awaiting approval at the FDA. Accordingly, we have begun marketing a number of these products which are categorized as distributed products. In addition, on January 29, 2008, the Company executed a distribution and sale agreement with Sun Pharma. This agreement covers certain mutually agreed upon products that have been filed or will be filed with the FDA with a Paragraph IV certification. A Paragraph IV certification states that the filer believes that it either does not infringe the patent or believes that the patent is invalid. Paragraph IV certified products face litigation challenges with respect to claims of patent infringement. Sun Pharma is not obligated to offer Caraco products under this agreement, however, Caraco has the exclusive right to market in the U.S., its territories and possessions, including Puerto Rico, any products offered by Sun Pharma and accepted by Caraco. Under the agreement, the Company participates in the sales opportunity on the products,

and also shares the litigation risks to a limited extent based on percentage. If such claims are successful, however, they could have a material adverse effect on the Company. We are marketing two products under this agreement including Pantoprazole sodium DR tablets. While increased distributed products may lower our overall gross profit margins, we do not have any of the associated costs other than routine marketing costs including freight, carrying costs, and actual purchase price. These agreements should provide for an alternate stream of products that will complement our internal research and development and our outsourced development. From time to time significant product launches such as we incurred under the distribution and sale agreement for Para IV products in Fiscal 2008 may occur that will add near term growth that may or may not be sustainable in future periods. Additionally we will continue to work with Sun Pharma in effort to transfer product technology on a cash basis similar to other third party developers. In addition in the future we may provide services to Sun Pharma, its affiliates and other third party pharmaceutical manufacturers relating to distribution of certain products, on a fee for service basis in effort to expand our product offerings and remain competitive.

The various agreements referenced above will provide four diverse paths of development, an increased product pipeline and potential revenue. These various paths mitigate the risk of each other, potentially allowing for an ongoing stream of approvals from the FDA.

Management’s plans for Fiscal 2010 include:

- Continue to focus and improve on FDA compliance.
- Continue to invest in equipment to improve quality.
- Improve management of manufacturing with a focus on quality.
- Increase cGMP training to accommodate growing staff and compliance.
- Increase research and development activities, with a view to increase the number of ANDA filings.
- Look for potential acquisitions that either complement or are synergistic to our current business model.
- Increased market share for certain existing products and recently introduced products.
- Enhanced customer reach and satisfaction.
- Prompt introduction of new approved products to the market.
- Achieving further operational efficiencies by attaining economies of scale and cost reduction per unit.
- Increase revenue and cash by marketing ANDAs owned by Sun Pharma.
- Leverage distribution and marketing to market other third party products through in-licensing and marketing.
- Expand our relationships with financial institutions to fortify our credit position and borrowings for potential acquisitions of any products or companies.
- Research alternate product development sources and product licenses such as in licensing authorized generics from brand innovator companies and acquisitions of ANDAs from competitor manufacturers both domestically and abroad.
- Research possible development of brands for existing stream of products where such potential exists.
- Increase focus on succession planning.
- Increase management training and development.
- Maintain balance in trade class.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

During, Fiscal 2009, the Company had no material market risk exposure. The following describes our current loan arrangements and the interest rates associated therewith.

Line of Credit

During the third quarter of Fiscal 2009, the Corporation renewed its one-year, $10 million Credit Agreement with JP Morgan Chase Bank, N.A., which will expire on November 30, 2009. Under the Credit Agreement, the lender may make loans and issue letters of credit to the Corporation for working capital needs and general corporate purposes. Letters of credit, if issued, expire one year from their date of issuance, but no later than November 30, 2009. Borrowings are secured by the Corporation's receivables and inventory. Interest is payable based on a LIBOR Rate or an alternate base rate (determined by reference to the prime rate or the federal funds effective rate), as selected by the Corporation. The rate of interest is LIBOR plus 75 basis points, or the bank's prime rate minus 100 basis points (provided the prime rate is not less than the prevailing one month LIBOR Rate plus 250 basis points). The effective rates were 1.25% and 2.25%, respectively, at March 31, 2009. The Credit Agreement requires that certain financial covenants be met on a quarterly basis. The Corporation is in compliance with these financial covenants at March 31, 2009. There were no borrowings under this Credit Agreement at March 31, 2009.

Term Loan

During the fourth quarter of Fiscal 2009 the Company entered into a term loan of $18 million with Charter One Bank. Understanding today's cost of money and the difficulty in the borrowing climate at the time we believed that it was prudent to take this loan to fortify our cash position to allow flexibility should product acquisitions come available. The loan is secured by a mortgage covering the Company's manufacturing facility and equipment located in Detroit, Michigan. The rate of interest is calculated as LIBOR plus an applicable margin thereto (based upon various leverage levels and current applicable rate is 50 basis points). The aggregate rate applicable to the Company as of March 31, 2009 was 2.01%. The principal loan payments and accrued interest are payable on a quarterly basis beginning July, 2009. The principal is to be repaid in equal quarterly installments of $900,000 for ten quarters through October 2011, and thereafter, if not renewed, the remaining balance of $9 million is due in January, 2012. The Company expects that the term loan will be renewed, and the loan amortization is expected to occur over 20 equal quarterly installments of $900,000 each.

As required per the terms of the Loan Agreement, the Company has entered into an Interest Rate Swap Agreement with Charter One Bank to hedge the interest rate applicable on the loan. The notional amount for the swap is $18 million which will amortize down as principal payments are made on the related debt. The annualized fixed rate of interest as it applies to this agreement is 2.41%. Thus as of March 31, 2009 the effective rate of interest to the Company for the term loan was 2.91% (2.41% swap rate plus applicable margin of 50 basis points). This loan will assist us in potential product acquisitions and or contribute to facilitating any other acquisition. We believe that our operations will provide the cash flow necessary to run our day to day business.

Item 8. Financial Statements and Supplementary Data

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

a. The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our interim Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report (the "Evaluation Date"), and have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in providing them with material information relating to the Company known to others within the Company which is required to be included in our periodic reports filed under the Exchange Act.

b. There has been no change in the Company's internal control over financial reporting that occurred during the fiscal year ended March 31, 2009 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Caraco Pharmaceutical Laboratories Ltd. (the "Company"). We maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Because of its inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements due to the possibility of collusion or improper override of controls, or that misstatements due to error or fraud may occur that are not detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2009 using criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Based on this assessment, management has concluded that the Company maintained effective internal control over financial reporting as of March 31, 2009, based upon the COSO framework criteria.

The Company's internal control over financial reporting as of March 31, 2009 has been audited by Rehmann Robson P.C. our independent registered public accounting firm, as stated in their report which appears herein.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed not later than 120 days after the Company's Fiscal year ended March 31, 2009.

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed not later than 120 days after the Company's Fiscal year ended March 31, 2009.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed not later than 120 days after the Company's Fiscal year ended March 31, 2009.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed not later than 120 days after the Company's Fiscal year ended March 31, 2009.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed not later than 120 days after the Company's Fiscal year ended March 31, 2009.

Part IV

Item 15. Exhibits Financial Statement Schedules.

(a) 1 Financial Statements

Notes to Financial Statements	F-10 to F-39

2 Financial Statement Schedules

None

3 Exhibits. The exhibits filed in response to Item 601 of Regulation S-K are listed in the Exhibit Index, which is incorporated herein by reference.

(b) Exhibits

The exhibits filed in response to Item 601 of Regulation S-K are listed in the Exhibit Index, which is incorporated herein by reference.

(c) Other Schedules

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 10th day of June, 2009.

CARACO PHARMACEUTICAL LABORATORIES, LTD.

/s/ Daniel H. Movens

Daniel H. Movens
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel H. Movens and / or Mukul Rathi, this 10th day of June, 2009, his true and lawful attorney(s)-in-fact and agent(s), with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this report and to file the same, with all exhibits and schedules thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney(s)-in-fact and agent(s) full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney(s)-in-fact and agent(s), or their substitutes(s), may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the date indicated above.

/s/ Dilip S. Shanghvi	Chairman of the Board
Dilip S. Shanghvi	
/s/ Daniel H. Movens	Director, Chief Executive Officer, Principal Executive Officer
Daniel H. Movens	
/s/ Mukul Rathi	Interim Chief Financial Officer, Principal Accounting Officer
Mukul Rathi	
/s/ Gurpartap Singh Sachdeva	Director
Gurpartap Singh Sachdeva	
/s/ John D. Crissman	Director
John D. Crissman	
/s/ Sailesh T. Desai	Director
Sailesh T. Desai	
/s/ Timothy Manney	Director
Timothy Manney	
	Director
Madhava Reddy	
/s/ Georges Ugeux	Director
Georges Ugeux	
/s/ Sudhir V. Valia	Director

Sudhir V. Valia

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CARACO PHARMACEUTICAL LABORATORIES, LTD.
(a subsidiary of Sun Pharmaceutical Industries Limited)

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR THE YEARS ENDED MARCH 31, 2009, 2008 AND 2007

CARACO PHARMACEUTICAL LABORATORIES, LTD.
(a subsidiary of Sun Pharmaceutical Industries Limited)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Stockholders and Board of Directors
Caraco Pharmaceutical Laboratories, Ltd.
Detroit, Michigan

We have audited the internal control over financial reporting of ***Caraco Pharmaceutical Laboratories, Ltd.*** (a Michigan corporation) (a subsidiary of Sun Pharmaceutical Industries Limited) (the "Corporation") based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring organizations of the Treadway Commission (the "COSO criteria"). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the *Public Company Accounting Oversight Board (United States)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A corporation's internal control over financial reporting is a process designed by, or under the supervision of, the corporation's principal executive and principal financial officers, or persons performing similar functions, and effected by the Corporation's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A corporation's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized

acquisition, use, or disposition on the Corporation's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the *Public Company Accounting Oversight Board (United States)*, the financial statements as of and for the year ended March 31, 2009 of the Corporation and our report dated May 29, 2009 expressed an unqualified opinion on those financial statements.

/s/ Rehmann Robson P.C.

Troy, Michigan
May 29, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Caraco Pharmaceutical Laboratories, Ltd.
Detroit, Michigan

We have audited the accompanying balance sheets of ***Caraco Pharmaceutical Laboratories, Ltd.*** (a Michigan corporation) (a subsidiary of Sun Pharmaceutical Industries Limited) (the "Corporation") as of March 31, 2009 and 2008 and the related statements of income, stockholders' equity and cash flows for the years ended March 31, 2009, 2008 and 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the *Public Company Accounting Oversight Board (United States)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Caraco Pharmaceutical Laboratories, Ltd***. as of March 31, 2009 and 2008, and the results of its operations and its cash flows for the years ended March 31, 2009, 2008 and 2007 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of *Public Company Accounting Oversight Board (United States)*, the Corporation's internal control over financial reporting as of March 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 29, 2009 expressed an unqualified opinion on the Corporation's internal control over financial reporting.

/s/ Rehmann Robson P.C.

Troy, Michigan
May 29, 2009

CARACO PHARMACEUTICAL LABORATORIES, LTD.

(a subsidiary of Sun Pharmaceutical Industries Limited)

BALANCE SHEETS

	March 31	
	2009	**2008**
ASSETS		
Current assets		
Cash and cash equivalents	$ 65,314,397	$ 56,906,051
Accounts receivable, net	15,181,197	135,927,027
Inventories	79,510,832	298,665,680
Prepaid expenses and deposits	9,440,942	8,161,319
Deferred income taxes	416,985	361,707
Total current assets	**169,864,353**	**500,021,784**
Property, plant and equipment		
Land	975,311	975,311
Buildings and improvements	28,148,447	13,102,557
Equipment	26,216,521	17,046,501
Furniture and fixtures	1,509,582	1,175,403
Construction in progress	2,708,137	405,689
Total	59,557,998	32,705,461
Less accumulated depreciation	14,734,961	11,438,027
Net property, plant and equipment	**44,823,037**	**21,267,434**
Intangible assets, net	1,383,048	—
Deferred income taxes	20,417,885	16,985,968
Total assets	**$ 236,488,323**	**$ 538,275,186**

	March 31	
	2009	**2008**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable, trade	$ 7,979,341	$ 4,781,739
Accounts payable, Sun Pharma	43,928,166	388,286,127
Accrued expenses	2,757,361	2,284,513
Income taxes payable	—	142,494
Long term debt, current portion	2,700,000	—
Total current liabilities	**57,364,868**	**395,494,873**
Long term debt	15,300,000	—
Total liabilities	**72,664,868**	**395,494,873**
Commitments and contingencies (Notes 9, 11 and 12)		
Stockholders' equity		
Series B convertible preferred stock, no par value; issued and outstanding 2,720,000 and 7,616,000 shares at March 31, 2009 and 2008, respectively	23,081,920	58,137,280
Common stock, no par value; authorized 50,000,000 shares, issued and outstanding 37,458,194 and 32,551,094 shares at March 31, 2009 and 2008, respectively	118,569,335	83,332,487
Additional paid-in capital	3,474,246	3,149,171
Retained earnings (accumulated deficit)	18,697,954	(1,838,625)
Total stockholders' equity	**163,823,455**	**142,780,313**
Total liabilities and stockholders' equity	**$ 236,488,323**	**$ 538,275,186**

CARACO PHARMACEUTICAL LABORATORIES, LTD.

(a subsidiary of Sun Pharmaceutical Industries Limited)

STATEMENTS OF INCOME

	Year Ended March 31,		
	2009	**2008**	**2007**
Net sales	$ 337,177,482	$ 350,366,689	$ 117,027,016
Cost of goods sold (Notes 1 and 4)	269,382,927	265,651,539	59,242,858
Gross profit	**67,794,555**	**84,715,150**	**57,784,158**
Selling, general and administrative expenses	16,417,971	14,322,140	9,880,674
Research and development costs - affiliate (Note 7)	—	11,320,640	11,761,280
Research and development costs - other	22,527,504	18,366,306	10,590,643
Operating income	**28,849,080**	**40,706,064**	**25,551,561**
Other income (expense)			
Interest income	631,151	1,832,409	1,081,208
Interest expense	(28,294)	—	(28,194)
Loss on sale of equipment	—	(144,551)	(5,106)
Other income	—	—	258,652
Other income - net	**602,857**	**1,687,858**	**1,306,560**
Income before income taxes	**29,451,937**	**42,393,922**	**26,858,121**
Income taxes	8,915,358	7,005,817	—
Net income	**$ 20,536,579**	**$ 35,388,105**	**$ 26,858,121**
Net income per share			
Basic	$ 0.60	$ 1.19	$ 1.02

Diluted	$ 0.51	$ 0.89	$ 0.72

CARACO PHARMACEUTICAL LABORATORIES, LTD.

(a subsidiary of Sun Pharmaceutical Industries Limited)

STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balances at April 1, 2006	**10,880,000**	**$ 72,755,770**	**26,421,994**	**$ 44,988,597**	**$ 2,718,735**	**$ (64,084,851)**	**$ 56,378,251**
Issuance of preferred stock to affiliate in exchange for product technology transfers	1,632,000	11,761,280	—	—	—	—	11,761,280
Conversion of preferred stock into common stock	(1,632,000)	(10,931,530)	1,632,000	10,931,530	—	—	—
Common stock options exercised			48,400	49,970	—	—	49,970
Common stock option expense					145,787		145,787
Net income	—	—	—	—	—	26,858,121	26,858,121
Balances at March 31, 2007	**10,880,000**	**73,585,520**	**28,102,394**	**55,970,097**	**2,864,522**	**(37,226,730)**	**95,193,409**
Issuance of preferred stock to affiliate in exchange for product technology transfers	1,088,000	11,320,640	—	—	—	—	11,320,640
Conversion of preferred stock into common stock	(4,352,000)	(26,768,880)	4,352,000	26,768,880			—
Common stock options exercised	—	—	36,700	119,810	—	—	119,810
Common stock issued to former director and officer	—	—	15,000	115,950	—	—	115,950
Common stock option expense	—	—	—	—	284,649	—	284,649
Common stock grants	—	—	45,000	357,750	—	—	357,750
Net income	—	—	—	—	—	35,388,105	35,388,105
Balances at March 31, 2008	**7,616,000**	**58,137,280**	**32,551,094**	**83,332,487**	**3,149,171**	**(1,838,625)**	**142,780,313**
Conversion of preferred stock into common stock	(4,896,000)	(35,055,360)	4,896,000	35,055,360			—
Common stock options exercised	—	—	1,000	11,250	—	—	11,250
Common stock option expense	—	—	—	—	325,075	—	325,075
Common stock grants	—	—	10,100	170,238	—	—	170,238
Net income	—	—	—	—	—	20,536,579	20,536,579
Balances at March 31, 2009	**2,720,000**	**$ 23,081,920**	**37,458,194**	**$ 118,569,335**	**$ 3,474,246**	**$ 18,697,954**	**$ 163,823,455**

CARACO PHARMACEUTICAL LABORATORIES, LTD.

(a subsidiary of Sun Pharmaceutical Industries Limited)

STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2009	**2008**	**2007**
Cash flows from operating activities			
Net income	$ 20,536,579	$ 35,388,105	$ 26,858,121
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	3,369,721	2,508,931	1,931,423
Capital stock issued or to be issued to affiliate in exchange for product formula	—	11,320,640	11,761,280
Loss on sale of equipment	—	144,551	5,106
Common stock option expense	325,075	284,649	145,787
Common stock grants	170,238	357,750	—
Common stock issued to former officer & director	—	115,950	—
Deferred income tax benefit	(3,487,195)	(17,347,675)	—
Changes in operating assets and liabilities which (used) provided cash			
Accounts receivable	120,745,831	(109,801,881)	(5,266,047)
Inventories	219,154,848	(266,722,382)	(4,977,607)
Prepaid expenses and deposits	(1,279,623)	(4,687,979)	(940,778)
Accounts payable	(341,160,358)	377,574,685	(2,881,171)
Accrued expenses	472,851	(1,498,192)	1,293,307
Income taxes payable	(142,494)	142,494	—
Net cash provided by operating activities	**18,705,473**	**27,779,646**	**27,929,421**
Cash flows for investing activities			
Purchases of property, plant and equipment	(26,852,537)	(5,094,031)	(6,006,014)
Proceeds from sale of equipment	—	203,004	—
Purchases of intangibles	(1,455,840)	—	—
Net cash used in investing activities	**(28,308,377)**	**(4,891,027)**	**(6,006,014)**
Cash flows from financing activities			
Proceeds from loans payable to financial institutions	18,000,000	—	5,000,000
Repayments of loans payable to financial institutions	—	—	(5,000,000)
Proceeds from issuance of common stock	11,250	119,810	49,970
Net cash provided by financing activities	**18,011,250**	**119,810**	**49,970**

Net increase in cash and cash equivalents	**8,408,346**	**23,008,429**	**21,973,377**
Cash and cash equivalents, beginning of year	56,906,051	33,897,622	11,924,245
Cash and cash equivalents, end of year	**$ 65,314,397**	**$ 56,906,051**	**$ 33,897,622**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Caraco Pharmaceutical Laboratories, Ltd. ("Caraco" or the "Corporation" or the "Company"), based in Detroit, Michigan, develops, manufactures and markets generic, prescription and over-the-counter pharmaceuticals in the United States. The process of developing a line of proprietary drugs requires approvals by the Food and Drug Administration ("FDA") of Abbreviated New Drug Applications ("ANDAs"). The Corporation's present product portfolio consists of 63 products in various strengths and package sizes. The Corporation's drugs relate to a variety of therapeutic segments including the central nervous system, cardiology, pain management and diabetes.

The Corporation's manufacturing facility and executive offices were constructed in 1991, pursuant to a $9.1 million loan from the Economic Development Corporation of the City of Detroit (the "EDC"). During 2009, the Corporation completed the expansion of the facility adjacent to its existing facility which has provided additional space required for manufacturing, quality control laboratories, raw material storage and administrative offices. Since August 1997, capital infusions had primarily come from Sun Pharmaceutical Industries Limited, a specialty pharmaceutical corporation organized under the laws of India ("Sun Pharma"). Among other things, Sun Pharma had in the past, acted as a guarantor on loans to Caraco, has and continues to supply the Corporation with raw materials for certain products, assists in obtaining machinery and equipment to enhance production capacities at competitive prices, and has transferred certain technology formulas for generic products. As of March 31, 2009, Sun Pharma beneficially owns approximately 74% (76% including its holdings of convertible Series B Convertible Preferred stock) of the outstanding common shares of Caraco.

Sun Pharmaceutical Industries Limited

Pursuant to a stock purchase agreement, a Mumbai, India based specialty pharmaceutical manufacturing company, Sun Pharma made an initial investment of $7.5 million for the purchase of 5.3 million common shares of Caraco in 1997.

In August 1997, Caraco entered into an agreement, whereby Sun Pharma was required to transfer the technology formulas for 25 generic pharmaceutical products over a five-year period in exchange for 544,000 shares of Caraco common stock for each technology transfer of an ANDA product (when bio-equivalency studies were successfully completed) and 181,333 common shares for each technology transfer of a Drug Efficacy Study Implementation ("DESI") product. The products provided to the Corporation from Sun Pharma were selected by mutual agreement. Under such agreement, Caraco conducted, at its own expense, all tests including bio-equivalency studies. Pursuant to such agreement through 2002, Sun Pharma delivered the technology formula for 13 products. This agreement expired on November 21, 2002, and the Corporation entered into a new technology transfer agreement with Sun Global, Inc. ("Sun Global"), an affiliate of Sun Pharma.

Under the agreement, which was approved by the Corporation's independent directors, Sun Global agreed to provide the formulations for 25 new generic drugs over a five-year period. Caraco's rights to the products are limited to the United States and its territories or possessions, including Puerto Rico. Sun Global retains rights to the products in all other territories. The products are selected by mutual agreement. Under this agreement, Caraco conducts at its own expense all tests, including bio-equivalency studies. The Corporation also markets the products consistent with its customary practices. In return for the technology transfer, Sun Global receives 544,000 shares of Series B Convertible Preferred Stock for each generic drug transferred when such drug has passed its bio-equivalency studies.

The products agreement was amended by the Independent Committee, comprised of the three independent directors, in the first quarter of 2004 to eliminate the provision requiring that the Independent Committee concur in the selection of each product, and provides instead that each product satisfy certain objective criteria developed by management and approved by the Independent Committee. Pursuant to such objective criteria, all 25 of the products under this agreement had been selected, and all 25 products had passed their respective bio-equivalency studies as of March 31, 2008.

Sun Pharma operates research and development centers in Mumbai and Vadodara in India, where the development work for products is performed.

Sun Pharma and its subsidiaries supply the Corporation with certain raw materials (Note 4) and formulations, assist in acquiring machinery and equipment to enhance production capacities, and have provided qualified technical professionals who work as Caraco employees. Also, four of the nine directors of Caraco are, or were, affiliated with Sun Pharma.

Further, Sun Pharma and its affiliates may use Caraco as a contract manufacturer and/or distributor of their products. In December 2004 and January 2005, Caraco entered into agreements for two such products, of which one is currently being marketed.

During the fiscal year ended March 31, 2007 ("Fiscal 2007"), the Corporation entered into a three-year marketing agreement with Sun Pharma, which was reviewed and approved by the Board's Independent Committee. Under the agreement, the Corporation purchases selected product formulations offered by Sun Pharma and markets and distributes the same as part of the current product offerings in the U.S., its territories and possessions, including Puerto Rico. Sun Pharma is not obligated to offer Caraco products under this agreement, however, Caraco has the exclusive right to market in the U.S., its territories and possessions, including Puerto Rico, any products offered by Sun Pharma and accepted by Caraco.

During the fiscal year ended March 31, 2008 ("Fiscal 2008"), the Corporation entered into a three-year distribution and sale agreement with Sun Pharma, which was reviewed and approved by the Board's Independent Committee. Under this agreement the

Company purchases selected formulations which have been filed under Paragraph IV certification process with the FDA by Sun Pharma and offered for distribution. Paragraph IV certified ("Para IV") products may face litigation challenges with respect to claims of patent infringement. Under the agreement the Company shares in the sales opportunity and shares the litigation risk. The Company is indemnified by Sun Pharma of any risk beyond the percentage agreed to as its profit percentage thereby limiting the Company's exposure. Sun Pharma is not obligated to offer Caraco products under this agreement, however, Caraco has the exclusive right to market in the U.S., its territories and possessions, including Puerto Rico, any products offered by Sun Pharma and accepted by Caraco. The Company markets and distributes the same as part of its current product offerings in the U.S., its territories and possessions, including Puerto Rico. The license granted with respect to a product terminates upon the end of an exclusivity period of 180 days or a non-appealable court decision, or until a third generic manufacturer launches the product, whichever is later, or until a settlement is reached, at which time the product will become part of the standard Caraco-Sun Pharma marketing agreement disclosed above. The Company currently receives a fixed gross profit margin of 8%, or such other percentages as shall be mutually agreed upon. Under the agreement, Sun Pharma and Caraco mutually indemnify each other capped by the fixed margin percentage with respect to damages from infringement.

During the fiscal year ended March 31, 2009 ("Fiscal 2009"), Fiscal 2008 and Fiscal 2007, the Corporation made net sales of $225.4 million, $225.1 million and $4.6 million of the marketed products under aforesaid agreements, respectively.

The Corporation also paid approximately $46 thousand, $0.3 million and $0.8 million for the years ended March 31, 2009, 2008 and 2007, respectively, to Sun Pharma and its associates for the purchase of various parts and machinery needed for operations.

The Corporation has also obtained technical and scientific services, including bio-equivalency studies, from the Clinical Research Organization operated by Sun Pharma. The product, on which the Company decides to work with Sun Pharma is determined on a case by case basis as mutually agreed upon by both companies. During Fiscal 2009, the Corporation incurred $0.3 million related to these services. No fees for these services were incurred during Fiscal 2008 and Fiscal 2007.

While management has a basis to reasonably believe that Sun Pharma's substantial investment in Caraco provides Sun Pharma with sufficient economic incentive to continue to assist Caraco in developing its business, and Sun Pharma has expressed its intent to continue to support Caraco's operations in the near term, as it has done in the past, there can be no assurance that such support will, in fact, continue, or that the current terms and conditions will remain the same in the future.

In addition to its substantial relationship with and dependence on Sun Pharma as described above, the Corporation is subject to certain risks associated with companies in the generic pharmaceutical industry. Profitable operations are dependent on the Corporation's ability to market its products at reasonable profit margins. In addition to

maintaining profitable operations, the ongoing success of the Corporation will depend, in part, on its continuing ability to attract and retain key employees, obtain timely approvals of its ANDAs, and develop new products (see “Operations”, below).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include, but are not limited to, provisions for estimated customer returns, discounts, rebates and other price adjustments, including customer chargebacks (see “Revenue Recognition”, below) and valuation of inventories.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and all highly liquid investments purchased with an original maturity of three months or less. The Corporation invests its excess cash primarily in deposits with major banks and in other high quality short-term liquid money market investments. During the normal course of business, the Corporation may maintain cash on deposit in excess of federally insured limits with financial institutions. The Corporation maintains a policy of making investments only with institutions with at least an investment grade credit rating.

Revenue Recognition

Revenue from product sales, both manufactured and distributed, net of estimated provisions, is recognized when there is persuasive evidence that an arrangement exists, shipment of the goods has occurred, the selling price is fixed or determinable, and collectibility is reasonably probable. The Corporation’s customers consist primarily of large pharmaceutical wholesalers who sell directly into the retail channel, chain drug stores, distributors, and managed care customers. Provisions for sales discounts, and estimates for sales chargebacks, customer rebates, and product returns are established as a reduction of product sales revenue at the time revenues are recognized, based on historical experience and current market trends adjusted to reflect known changes in the factors that impact these allowances. These revenue reductions are reflected as a direct reduction to accounts receivable through a sales allowance account.

Allowances for Sales Adjustments

Chargebacks

Chargebacks represent the Corporation’s most significant provision against gross accounts receivable and related reduction to gross sales revenue. Chargebacks are retroactive credits given to wholesale customers that represent the difference between the lower price they sell (contractual price) to retail, chain stores, and managed care

organizations and what the Corporation charges the wholesaler. The Corporation estimates chargebacks at the time of sale for their wholesale customers. The Corporation is currently unable to specifically determine whether the amounts provided in specific prior periods for chargeback allowances have been over or understated. Wholesaler customers who submit chargebacks to the Corporation do not reference a specific invoice that the chargeback is related to when the chargeback is submitted to the Corporation. Thus, the Corporation cannot determine the specific period to which the wholesaler's chargeback relates.

The Corporation considers the following factors in the determination of the estimates of sales chargebacks:

1. The historical data of chargebacks as a percentage of sales, as well as actual chargeback reports received from primary wholesaler customers.

2. Volume of all products sold to wholesaler customers and the average chargeback rates for the current quarter as compared to the previous quarter and compared to the last six month period.

3. The sales trends and future estimated prices of products, wholesale acquisition cost (WAC), the contract prices with the retailers, chain stores, managed care organizations (end-users), and wholesaler customer's contract prices.

4. The Corporation utilizes data on remaining inventories on hand at primary wholesaler customers at the end of each reporting period in the calculation of estimates.

Such estimated amounts, in addition to certain other allowances, are deducted from the Corporation's gross sales to determine net revenues. The amount of actual chargebacks claimed could be either higher or lower than the amounts accrued. Changes in estimates, if any, would be recorded in the income statement in the period the change is determined. If the Corporation materially over or under estimates the amount that will ultimately be charged back to it by its wholesale customers, there could be a material impact on the Corporation's financial statements. Approximately 88% and 94% of the total allowance for trade receivables at March 31, 2009 and 2008, respectively, has been established to provide for estimated sales chargebacks and customer rebates (see Note 3).

Shelf Stock Adjustments

Shelf stock adjustments are credits issued to customers to reflect decreases in the selling prices of products. These credits are customary in the industry and are intended to reduce the customers' inventory cost to better reflect current market prices. The decision to grant a shelf stock adjustment to a customer following a price decrease is made at the Corporation's discretion.

Factors considered when recording an allowance for shelf stock adjustments include estimated launch dates of competing products based on market intelligence, estimated decline in market price of products based on historical experience and input from

customers, and levels of inventory held by customers at the date of the pricing adjustments.

Product Returns and Other Allowances

In the pharmaceutical industry, customers are normally granted the right to return product for credit if the product has not been used prior to its expiration date. The Corporation's return policy typically allows product returns for products within a 12-month window from six months prior to the expiration date and up to six months after the expiration date. The Corporation estimates the level of sales, which will ultimately be returned pursuant to its return policy, and records a related allowance at the time of sale. These amounts are deducted from its gross sales to determine net revenues. These estimates take into consideration historical returns of the products and the Corporation's future expectations. The Corporation periodically reviews the allowances established for returns and adjusts them based on actual experience, as necessary. The primary factors considered in estimating its potential product returns include shelf life of expiration date of each product and historical levels of expired product returns. If the Corporation becomes aware of any returns due to product related issues, this information is used to estimate an additional allowance. The Corporation provides for allowance related to returns resulting from product recalls, in the period that such recalls occur. The amount of actual product return could be either higher or lower than the amounts provided. Changes in these estimates, if any, would be recorded in the income statement in the period the change is determined. If the Corporation over or under estimates the quantity of product that will ultimately be returned, there may be a material impact to its financial statements.

Sales discounts (trade and prompt payment discounts) are provided for at the end of every reporting period based on the gross sales made to the customers during the period and based on their terms of trade. The Corporation reviews its contracts with its customers in addition to historical data and percentages to estimate the reserve for estimated discounts.

Customer rebates are estimated at the end of every reporting period, based on direct or indirect purchases. If the purchases are direct, the rebates are recognized when products are purchased and a periodic credit is given. For indirect purchases, the rebates are recognized based on the terms with such customer. Medicaid rebates are estimated based on the historical data the Corporation receives from the public sector benefit providers, which is based on the final dispensing of the products by a pharmacy to a benefit plan participant.

Doubtful Accounts

Doubtful accounts are estimated based on the data available from external sources, including information obtained related to the financial condition of customers. Delinquent accounts are reviewed by management on a quarterly basis, to identify and record allowances, as considered necessary, for accounts receivable not expected to be recoverable.

Accounts Receivable

The Corporation sells its products using customary trade terms; the resulting accounts receivable are unsecured. Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Corporation provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after the Corporation has attempted reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

Inventories

Inventories, which consist of raw materials, goods in transit and finished goods, as well as work-in-process, are stated at the lower of cost, determined using the specific identification method, or market. The Corporation analyzes its inventory levels quarterly and writes down any inventory that has become obsolete and inventory that has a cost basis in excess of its expected net realizable value. Expired inventory is disposed of and the related costs are written off. Materials acquired for research and development on products yet to be launched are written off in the year of acquisition. Inventory includes material purchased related to products for which the Corporation has filed ANDAs with the FDA, and the commercial launch of such products will commence once the approvals are received. The determination of whether or not inventory costs will be realizable requires estimates by management. A critical estimate in this determination is the estimate of the future expected inventory requirements, whereby the Corporation compares its internal sales forecasts to inventory on hand. Actual results may differ from those estimates and inventory write-offs may be required. The Corporation must also make estimates about the amount of manufacturing overhead to allocate to its finished goods and work in process inventories. Although the manufacturing process is generally similar for its products, the Corporation must make judgments as to the portion of costs to allocate to purchased product, work in process and finished goods, and such allocations can vary based upon the composition of these components and the fact that each product produced does not necessarily require the same amount of time or effort for the same production step. Accordingly, the assumptions made can impact the value of reported inventories and cost of sales.

Net Income (Loss) Per Share

Net income (loss) per share is computed using the weighted average number of common shares outstanding during each year and considers a dual presentation and reconciliation of "basic" and "diluted" per share amounts. Diluted reflects the potential dilution of all common stock equivalents.

The following table sets forth the computation of basic and diluted net income (loss) per common share:

	Year Ended March 31 2009	Year Ended March 31 2008	Year Ended March 31 2007
Numerator:			
Net income available for common stockholders	$ 20,536,579	$ 35,388,105	$ 26,858,121
Denominator:			
Weighted average shares outstanding, basic	34,227,335	29,656,624	26,447,312
Incremental shares from assumed conversion of -			
- preferred stock	5,949,721	9,916,852	10,464,175
- common stock options	398,665	340,278	343,293
Weighted average shares outstanding, diluted	40,575,721	39,913,754	37,254,780
Net income per common share			
Basic	$ 0.60	$ 1.19	$ 1.02
Diluted	$ 0.51	$ 0.89	$ 0.72

Property, Plant and Equipment and Depreciation

Property, plant and equipment is carried at cost less accumulated depreciation. Land is carried at cost. Construction in process is carried at cost until such time the associated asset(s) is placed into service. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets for impairment and believes the carrying value of these assets will be recovered through cash flows from operations.

Income Taxes

Deferred income tax assets and liabilities are determined based on the difference between the financial statement and federal income tax basis of assets and liabilities as measured by the estimated tax rates that will be in effect when these differences reverse. Deferred income taxes result principally from the Corporation’s intangibles related to technology transfer costs and net operating loss carryforwards.

Research and Development Costs

Series B convertible preferred stock was issued to Sun Pharma and its affiliates under the Products Agreement between the Corporation and Sun Global in exchange for the technology of formulation products delivered by Sun Global to the Corporation. Such Products Agreement has been completed with the last technology transfer occurring during the third quarter of Fiscal 2008. Accordingly, no further non-cash research and development expense is expected to be incurred thereunder. The amount of non-cash research and development expense which was incurred for past technology transfers under the Products Agreement was charged to operations and was determined based on the fair value of the preferred shares on the date the respective product formula passed its bio-equivalency studies. The fair value of such shares was based upon a valuation performed by Donnelly Penman & Partners, an independent, third party valuation firm. The exchange of shares was prior to the initial ANDA submission to the FDA.

The Corporation was responsible for submission of these transferred formulations for FDA approval. In the Company's experience, generally, the submission of an ANDA to the FDA is approximately thirty days after the receipt of notice that the proposed drug product formula passes its bio-equivalency study and accelerated stability studies. An ANDA contains data related to a generic drug product which is submitted to the FDA for review and approval. The FDA must first determine the completeness of the filing and may deny the filing if it is incomplete. There are various reviews that are completed, including bio-equivalency, chemistry, manufacturing, and labeling. The bio-equivalency of a generic drug product is established by measuring the rate and level of active ingredient(s) in the bloodstream of healthy human subjects over a period of time. These pharmacokinetic parameters and results are compared with the innovator's drug product. The bio-equivalency results of the proposed generic drug product must meet pharmacokinetic standards set forth by the FDA. Accordingly, the generic version of a drug product must generally deliver the same amount of active ingredient(s) into the bloodstream within the same timeframe as that of the innovator drug product. Following an indication that the generic drug product has passed its bio-equivalency study, the generic drug product will undergo reviews for chemistry, manufacturing and labeling. In each case, the FDA has an opportunity to raise questions or comments, or issue a deficiency letter. In the event that one or more deficiency letters are issued by the FDA, the submission of the ANDA may be halted or delayed as necessary to accommodate the correction of any such deficiencies and the completion of any additional reviews required. Minor deficiencies traditionally could delay the approval anywhere from 10 days to 90 days or more. Major deficiencies could stop the evaluation process. A restart of the FDA review process after a major deficiency could take up to as many as 180 days or more. Generally, any deficiencies the Company has experienced have been minor, though at times, approvals have faced considerable delays. Based on these delays, the economic benefit may not be realized at its highest potential as the delay could cause our approval to be behind our competition's approval of the same generic product.

Based on the definition and characteristics of an asset, set forth in paragraphs 25 and 26 of Statement of Financial Accounting Concepts No. 6 issued by the Financial Accounting Standards Board ("FASB"), the Company did not capitalize the technology formulas

transferred, as the probability of the future economic benefit to be derived from such formulations was considered uncertain at the time of technology transfer.

In addition, the Company has reported the technology transfers as research and development expenses pursuant to Statement of Financial Accounting Standards ("SFAS") No. 2, "Accounting for the Research and Development Costs." In connection therewith, the research and development technology transferred by Sun Global under the Products Agreement was always specific research and development technology for a specific product formula. There were no alternative future uses (in other research and development projects or otherwise) for such products. For example, Caraco has never acquired technology from Sun Global with the purpose of selling such technology and, in fact, has never sold or held for sale any of the technology transferred by Sun Global to a third party. Caraco has always developed the research and development technology into manufactured product for its own business purposes.

Research and development costs settled in cash are charged to expense as incurred.

Intangible Assets

The Company made a cash payment in the first quarter of Fiscal 2009 in the amount of $1,100,000 for the purchase of certain assets which included brand products, associated New Drug Applications ("NDAs") and trademarks. These assets are recorded as intangible assets in the Company's balance sheet at March 31, 2009. Additionally during the second quarter of Fiscal 2009, the Company paid $356,000 in cash towards product and establishment fees for these products. The total gross carrying amount for these assets is $1,456,000 as of March 31, 2009. These intangible assets are being amortized equally over a period of 15 years, the period during which the Company expects to receive economic benefits from these intangible assets. During Fiscal 2009, the Company recorded $73,000 in amortization expense, and estimates that an additional $97,000 of related amortization expense will be recorded in each of the Company's next five fiscal years.

Financial Instrument

The Company utilizes interest rate swap agreements with a bank to fix interest rates on the Company's term loan which reduces exposure to interest rate fluctuations. The interest rate swap changes the variable-rate cash flow exposure on the long-term debt obligations to fixed-rate cash flows by entering into a receive-variable, pay-fixed interest rate swap. Under the interest rate swap, the Company receives variable-rate payments and makes fixed interest rate payments, thereby creating fixed-rate long-term debt. The Company does not use any other types of derivative financial instruments to hedge such exposures, nor does it use derivatives for speculative purposes. The Company assesses interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The notional value of the interest rate swap agreement in place at March 31, 2009 covers the Company's term loan in the amount of $18 million. The

expiration of this swap agreement is consistent with the underlying debt instrument. Interest is settled quarterly. The Company has not elected hedge accounting with respect to this swap agreement, and accordingly, changes in fair value of the swap agreement will be reported in the Income Statement. The fair value of this swap agreement at March 31, 2009 was not material..

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value within generally accepted accounting principles and expands required disclosures about fair value measurements. SFAS 157 establishes a three–tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. In November 2007, the FASB provided a one year deferral for the implementation of SFAS 157 for non-financial assets and liabilities. The Company adopted SFAS 157 on April 1, 2008, as required. The adoption of SFAS 157 did not have any impact on the Company's reported financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities–Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. The Company adopted SFAS 159 on April 1, 2008. The adoption of SFAS 159 did not have any impact on the Company's reported financial condition or results of operations.

The carrying values of cash equivalents, accounts receivable, and accounts payable approximate their fair values due to the short-term maturities of these financial instruments.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 re-characterizes minority interests in consolidated subsidiaries as non-controlling interests and requires the classification of minority interests as a component of equity. Under SFAS 160, a change in control will be measured at fair value, with any gain or loss recognized in earnings. The effective date for SFAS 160 is for annual periods beginning on or after December 15, 2008 (the Corporation's Fiscal 2010) and are not expected to have a material impact on the Corporation's financial statements. Early adoption and retroactive application is not permitted.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”) which replaces SFAS No. 141, “Business Combinations” (“SFAS 141”). SFAS 141R establishes principles and requirements for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed and any non-controlling interest in a business combination at their fair value at acquisition date. SFAS 141R provides updated guidance and makes significant amendments to previous guidance in SFAS 141 and other standards including the treatment of acquisition related costs, business combinations achieved in stages (referred to as a step acquisition), the treatment of gains from a bargain purchase, the recognition of contingencies in business combinations, the treatment of IPR&D in a business combination as well as the treatment of recognizable deferred tax benefits. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008 (the Corporation’s Fiscal 2010) and are not expected to have a material impact on the Corporation’s financial statements. Early adoption is prohibited.

In February, 2008, the FASB issued FSP No. 157-2, “Effective Date of FASB Statement No. 157,” which delays for one year the effective date of FASB Statement No. 157, “Fair Value Measurements,” for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of SFAS 157, which became effective for fiscal years beginning after November 15, 2007 (and for interim periods within those years). The requirements of FSP No. 157-2 will be effective for the Corporation’s Fiscal 2010 and are not expected to have a material impact on the Corporation’s financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (“SFAS 161”). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity’s derivative instruments and hedging activities and their effects on the entity’s financial position, financial performance and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS 133, “Accounting for Derivative Instruments and Hedging Activities”. The effective date for SFAS 161 is fiscal years and interim periods beginning after November 15, 2008 (the Corporation’s Fiscal 2010), with early application encouraged. The Corporation is currently reviewing SFAS 161 and does not expect its adoption to have a material impact on the Company’s financial statements.

In April 2008, the FASB issued FSP No. 142-3, “Determination of the Useful Life of Intangible Assets.” This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), and other U.S. generally accepted accounting principles. This FSP applies to all intangible assets,

whether acquired in a business combination or otherwise and shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, (the Corporation's Fiscal 2010) and interim periods within those fiscal years and applied prospectively to intangible assets acquired after the effective date. Early adoption is not permitted. The requirements of this FSP are not expected to have a material impact on the Company's financial statements.

2. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Financing Activities

As described in Notes 1 and 7, pursuant to the technology transfer agreement with an affiliate of the Corporation's parent, Caraco, in the past, financed the acquisition of research and development costs in exchange for the issuance of preferred stock to its parent. Preferred stock earned or issued to affiliates had fair values of $0, $11,320,640 and $11,761,280 for the years ended March 31, 2009, 2008 and 2007, respectively. During Fiscal 2009 and Fiscal 2008, the Corporation issued 4,896,000 and 4,352,000 shares of its common stock to Sun Pharma Global Inc. in exchange for 4,896,000 and 4,352,000 preferred shares, valued at $35,055,360 and $26,768,880, respectively.

Other Cash Flows Information

There was no cash paid for interest during Fiscal 2009 and Fiscal 2008, while approximately $28,000 was paid for interest during Fiscal 2007. During Fiscal 2009 and Fiscal 2008, the Company paid approximately $15,600,000 and $24,210,000, respectively, of federal income taxes. No such payments were made in Fiscal 2007.

3. ACCOUNTS RECEIVABLE, NET OF ALLOWANCES FOR SALES ADJUSTMENTS AND DOUBTFUL ACCOUNTS

Accounts receivable and related allowances are summarized as follows:

	March 31,	
	2009	2008
Accounts receivable - gross	$ 71,842,197	$ 220,223,027
Allowances:		
Chargebacks and rebates	50,028,000	78,905,000
Sales returns and allowances	6,555,000	5,273,000
Doubtful accounts	78,000	118,000
Total allowances	56,661,000	84,296,000
Accounts receivable, net of allowances	$ 15,181,197	$ 135,927,027

A summary of the activity in accounts receivable allowances is as follows:

	Total Allowances
Balance at March 31, 2007	**$ 36,490,000**
Additions charged to net sales	288,584,000
Deductions allowed to customers	(240,778,000)
Balance at March 31, 2008	**$ 84,296,000**
Additions charged to net sales	311,171,000
Deductions allowed to customers	(338,806,000)
Balance at March 31, 2009	**$ 56,661,000**

4. INVENTORIES

Inventories consist of the following amounts:

	March 31	
	2009	2008
Raw materials	$ 17,954,511	$ 9,803,735
Goods in transit	29,236,869	46,002,600
Work in process	9,279,009	7,308,480
Finished goods (Manufactured)	9,749,721	7,953,293
Finished goods (Distributed)	13,290,722	227,597,572
Total inventories	$ 79,510,832	$ 298,665,680

The principal components used in the Corporation’s business are active and inactive pharmaceutical ingredients and certain packaging materials. Some of these components are purchased from single sources; however, the majority of the components have an alternate source of supply available. Because the FDA approval process requires manufacturers to specify their proposed supplier of components in their applications, FDA approval of a new supplier would be required if components were no longer available from the specified suppliers. Also, a major component of the Company’s inventory includes purchase of finished goods for distribution under various marketing agreements. Total inventories at March 31, 2009 includes materials purchased in the amount of $2,875,885 related to products for which the Company has filed ANDAs with the FDA, and the commercial launch of such products will commence once the approvals are received.

During the years ended March 31, 2009, 2008 and 2007, the Corporation purchased inventory components of approximately $8.4 million, $498.5 million and $38.8 million, respectively, from Sun Pharma. (Also see Note 11).

5. DEBT

Loans Payable to Financial Institutions

During the third quarter of Fiscal 2009, the Corporation renewed its one-year, $10 million Credit Agreement with JP Morgan Chase Bank, N.A., which will expire on November 30, 2009. Under the Credit Agreement, the lender may make loans and issue letters of credit to the Corporation for working capital needs and general corporate purposes. Letters of credit, if issued, expire one year from their date of issuance, but no later than November 30, 2009. Borrowings are secured by the Corporation's receivables and inventory. Interest is payable based on a LIBOR Rate or an alternate base rate (determined by reference to the prime rate or the federal funds effective rate), as selected by the Corporation. The rate of interest is LIBOR plus 75 basis points, or the bank's prime rate minus 100 basis points (provided the prime rate is not less than the prevailing one month LIBOR Rate plus 250 basis points). The effective rates were 1.25% and 2.25%, respectively, at March 31, 2009. The Credit Agreement requires that certain financial covenants be met on a quarterly basis. There were no borrowings under this Credit Agreement at March 31, 2009.

During the fourth quarter of Fiscal 2009 the Company entered into a term loan of $18 million with RBS Citizens, N.A. d/b/a Charter One Bank ("Charter One Bank"). The loan is secured by a mortgage covering the Company's manufacturing facility and equipment located in Detroit, Michigan. The rate of interest is calculated as LIBOR plus an applicable margin thereto (based upon various leverage levels and current applicable rate is 50 basis points). The aggregate rate applicable to the Company as of March 31, 2009 was 2.01%. The principal loan payments and accrued interest are payable on a quarterly basis beginning July 2009. The principal is to be repaid in equal quarterly installments of $900,000 for ten quarters through October 2011, and thereafter, if not renewed, the remaining balance of $9 million is due in January 2012. The Company expects that the term loan will be renewed, and the loan amortization is expected to occur over 20 equal quarterly installments of $900,000 each.

The following is a schedule of annual future payments of debt installments:

Fiscal Year		Amount
2010	$	2,700,000
2011		3,600,000
2012		11,700,000
	$	18,000,000

As required pursuant to the terms of the Loan Agreement, the Company has entered into an Interest Rate Swap Agreement with Charter One Bank to hedge the interest rate applicable on the loan. The notional amount for the swap is $18 million which will amortize down as principal payments are made on the related debt. The annualized fixed rate of interest as it applies to this agreement is 2.41%. Thus as of March 31, 2009 the effective rate of interest to the Company for the term loan was 2.91% (2.41% swap rate plus applicable margin of 50 basis points). The fair value of this swap agreement at March 31, 2009 was not material.

6. INCOME TAXES

The provision for income taxes for the fiscal years ended March 31, 2009 and March 31, 2008 consist of the following:

	March 31,		
	2009	2008	2007
Current	$ 12,402,553	$ 24,353,492	$ 538,059
Deferred benefit	(3,487,195)	(17,347,675)	(538,059)
Total	$ 8,915,358	$ 7,005,817	$ —

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rates to income before income taxes. The items causing the difference for the fiscal years ended March 31 are as follows:

	2009	2008	2007
Provision for income taxes at statutory rates	$ 10,308,528	$ 14,837,872	$ 9,131,761
Change in valuation allowance	—	(6,962,422)	(8,642,636)
Permanent items	(557,849)	107,174	9,905
Other	(835,321)	(976,807)	(499,030)
Income tax expense	$ 8,915,358	$ 7,005,817	$ —

Deferred taxes consist of the following:

	March 31, 2009	March 31, 2008
Deferred tax assets:		
Net operating loss carryforwards	$ 797,631	$ 1,063,509
Intangibles	26,458,255	28,865,403

Other		417,136		361,706
Total deferred tax assets	$	27,673,022	$	30,290,618
Deferred tax liabilities:				
Intangibles	$	6,180,987	$	12,361,975
Depreciation		657,165		580,968
Total deferred tax liabilities	$	6,838,152	$	12,942,943
Net deferred tax assets	$	20,834,870	$	17,347,675

The Company had net deferred tax assets of $20.8 million and $17.3 million at March 31, 2009 and March 31, 2008, respectively. Valuation allowances are provided when based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has recorded an income tax provision of $8.9 million and $7.0 million during Fiscal 2009 and Fiscal 2008, respectively. No such provision or benefit was recorded for Fiscal 2007 due to the reversal of valuation allowances previously offsetting deferred tax assets. The Company has not provided for any valuation allowance as of March 31, 2009 or March 31, 2008. Based upon the level of projected future taxable incomes over the periods in which deferred assets are deductible, the Company expects that it is more likely than not that it will realize the benefit of these temporary differences. As of March 31, 2009, the Company had federal net operating loss carryforwards ("NOLs") of approximately $2.3 million, which are restricted by limitations of Internal Revenue Code Section 382, available to reduce taxable income and will expire between Fiscal 2010 and Fiscal 2012.

The Company adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), at the beginning of Fiscal 2008. The Company had determined that no adjustments for unrecognized tax benefits were necessary as a result of the adoption of FIN 48. There are no unrecognized tax benefits present at March 31, 2009.

The Company is subject to U.S. federal income tax as well as income tax in certain state jurisdictions. The Company had not previously been a subject of an IRS examination however the IRS has recently initiated an examination of the Company's tax return for the fiscal year ended March 31, 2007. The Company believes that it has complied with applicable IRS Codes and regulations, for the period under review. The Company's federal statute of limitations has expired for years prior to 2003.

In July 2007, the State of Michigan signed into law the Michigan Business Tax Act ("MBTA"), replacing the Michigan Single Business Tax with a business income tax and a modified gross receipts tax. This new tax took effect January 1, 2008, and because the MBTA is based or derived from income-based measures, the provisions of SFAS No. 109, Accounting for Income Taxes, apply as of the enactment date. The law, as amended, established a deduction to the business income tax base if temporary differences associated with certain assets results in a net deferred tax liability as of December 31, 2007 (the year of enactment of this new tax). This deduction has a carryforward period to at least tax year 2029. This new tax had an immaterial effect on the results of operations.

7. STOCKHOLDERS' EQUITY

Common Stock

The Corporation granted 45,000 shares of common stock on May 2, 2005 to its Chief Executive Officer, which vested at a rate of 15,000 shares on each anniversary date until

they became fully vested on May 2, 2008. The Corporation recorded compensation expense of approximately $10,000, $119,000 and $119,000 related to the portion of the stock grant that vested during Fiscal 2009, Fiscal 2008 and Fiscal 2007, respectively. During Fiscal 2009 the Corporation granted 10,000 shares of common stock to its Chief Executive Officer, which vested on May 2, 2008. The Corporation recorded compensation expense of $169,900 relating to this stock grant.

Preferred Stock

In November 2002, in connection with the new technology transfer agreement established with Sun Global (Note 1), the Corporation designated the Series B Convertible Preferred Stock. The Series B preferred shares are non-redeemable and have no par value. In addition, the Series B Convertible Preferred Stock has no voting or dividend rights or liquidation preference other than priority liquidation based on their values on the dates they were earned, and can be converted after three years from the issuance date (or immediately upon a change in control) into one share of common stock, subject to a conversion adjustment (Note 1). While such preferred shares are outstanding, Caraco cannot, without the consent of the holders of a majority of the outstanding shares of the preferred stock, amend or repeal its articles of incorporation or bylaws if such action would adversely affect the rights of the preferred stock. In addition, without such consent, capital stock having any preference or priority superior to the preferred stock may not be issued. As of March 31, 2009, the Corporation has issued 13,600,000 shares of the Series B Convertible Preferred stock to Sun Pharma in exchange for twenty-five product transfers. Such shares have been cumulatively valued at $95,837,690 as of March 31, 2009. During Fiscal 2009, 4,896,000 shares of the preferred stock were converted into an equal number of shares of Corporation's common stock at a value of $35,055,360, while during Fiscal 2008, 4,352,000 shares of preferred stock were converted into an equal number of shares of the Corporation's common stock at a value of $26,768,880. As of March 31, 2009, all 25 of the products under the technology transfer agreement had been selected and all of these 25 products had passed bio-equivalency studies; the final product being transferred to Caraco during the third quarter of Fiscal 2008, which concluded the obligations between the parties under this agreement.

8. COMMON STOCK OPTIONS

Common Stock Option Plans

As of March 31, 2009, the Corporation maintains one common stock option plan, the 2008 Equity Participation Plan (the "2008 Plan"). This plan was adopted and approved by shareholders at the Annual Meeting of Shareholders held in September 2008. The 2008 Plan replaces the 1999 Equity Participation Plan (the "1999 Plan"). Under the 2008 Plan, the Corporation may grant options to employees and non-employee-directors for the purchase of up to 1,000,000 shares of common stock. The exercise price of options granted may not be less than the fair value of the common stock on the date of grant. Options granted under this plan generally vest in annual installments, from the date of

grant, over a three and five-year period, and expire within six years from the date of the grant. Activity with respect to options under these plans is summarized as follows:

	Year Ended March 31, 2009		Year Ended March 31, 2008		Year Ended March 31 2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	161,000	$ 10.83	165,900	$ 7.36	141,400	$ 3.93
Granted	86,500	14.20	52,000	14.31	74,000	9.78
Exercised	(1,000)	11.25	(36,700)	3.26	(48,400)	1.03
Terminated	(19,500)	14.34	(20,200)	4,80	(1,100)	8.83
Outstanding, end of year	227,000	$ 11.81	161,000	$ 10.83	165,900	$ 7.36
Options exercisable, end of year	102,000	$ 9.84	52,000	$ 8.93	61,233	$ 3.95

Options at March 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Remaining Contractual Life *	Exercise Price *	Shares	Exercise Price *
$4.01 to $5.00	4,500	5.9	$ 4.08	—	$ —
$5.01 to $7.00	4,500	5.8	5.31	—	—
$7.01 to $8.00	4,500	4.4	7.61	1,500	7.90
$8.01 to $9.00	47,000	2.2	8.38	46,000	8.38
$9.01 to $10.00	46,000	3.1	9.35	31,667	9.35
$10.01 to $13.00	9,500	3.5	12.17	6,500	12.14
$13.01 to $18.00	111,000	4.9	15.00	16,333	14.19
Total	227,000	3.7	$ 11.81	102,000	$ 9.84

*Weighted average

The estimated fair value as of the date options were granted during the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007 was estimated on the date of the grant using the Black Scholes option-pricing model and is based upon the following assumptions:

	Year ended March 31, 2009	Year ended March 31, 2008	Year ended March 31, 2007
	$ 4.78	$ 7.15	$ 4.08

Weighted average estimated fair value per share of options granted during the period			
Assumptions			
Common stock price volatility	39.6%	39.9%	36.5%
Risk free rate of return	3.0%	4.6%	4.7%
Expected option term (in years)	4	4	6
Average dividend yield	0%	0%	0%

Other Common Stock Option Agreements

The Corporation had issued other stock options outside of the 1999 Plan and 2008 Plan. These stock options have been issued with various vesting schedules and expired at various dates through October 2006. Activity with respect to these options is summarized as follows:

	Year Ended March 31, 2009		Year Ended March 31, 2008		Year Ended March 31, 2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50
Exercised	—	—	—	—	—	—
Outstanding, end of period	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50
Options exercisable, end of period	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50

Options at March 31, 2009:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Shares	Remaining Contractual Life	Exercise Price
$3.01 to $4.00	200,000	—	$ 3.50

The Corporation accounts for its stock-based compensation plans in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "*Share-Based Payment*" (Statement No. 123 (R)"), which requires employee share-based compensation to be accounted for under the fair value method and requires the use of an option pricing model for estimating the fair value of stock options at the date of grant.

The Corporation estimates the fair value of stock options granted using the Black-Scholes option-pricing model, which requires the Corporation to estimate the expected term of the stock option grants and expected future stock price volatility over the term. The term represents the expected period of time the Corporation believes the options will be outstanding based on historical information. Estimates of expected future stock price volatility are based on historical volatility of the Corporation's common stock. The Corporation calculates the historical volatility as the standard deviation of the differences in the natural logarithms of the weekly stock closing price, adjusted for dividends and stock splits.

For the year ended March 31, 2009, the Corporation has recognized expense amounting to $325,075 related to common stock options, as compared to $284,649 for the year ended March 31, 2008 and $145,787 for the year ended March 31, 2007. As of March 31, 2009, total unrecognized compensation cost related to common stock options granted was $509,048. The unrecognized stock option compensation cost is expected to be recognized over a period of approximately 3 to 5 years.

Options to purchase 86,500, 52,000 and 74,000 shares of common stock were granted for the years ended March 31, 2009, 2008 and 2007, respectively, to the independent directors, and certain officers and employees of the Corporation.

The Corporation granted options to purchase 40,000 shares of common stock each on August 9, 2007 and June 11, 2006, respectively, to its Chief Executive Officer, which vest at a rate of 1/3rd on each anniversary date until they are fully vested on August 9, 2010 and June 11, 2009, respectively. Additionally, the Company recorded an expense of $169,900 related to a stock grant of 10,000 common shares issued to the CEO on May 2, 2008 as part of his employment agreement, which vested immediately upon issuance.

Strategic Alliance Stock Options Agreement

Pursuant to an agreement between the Corporation and an unaffiliated large generic pharmaceutical corporation, dated October 1, 1993, the Corporation was to receive the formulations, technology, manufacturing processes and know-how, and other relevant information, and to pay for the bio-equivalency studies required for the preparation of ANDAs for two products. Pursuant to the agreement, the Corporation was required to pay (i) a Sign-Up Option to purchase 100,000 shares of Common Stock at $3.50 per share; and (ii) a Product Option to purchase shares at an exercise price of $3.50 per share. These options may be exercised and payment for shares may be made only out of royalties and any interest earned on the royalties while held by the Corporation. No options have yet been exercised (See Note 12).

9. LEASES

The Corporation entered into a non-cancelable operating lease with an unrelated party during 2002 to lease additional warehouse space. This lease was subsequently modified during 2003 in lieu of a new non-cancelable operating lease for additional space at this warehouse. The lease was again modified during 2006 to change the term from 42 months to 66 months. The new lease required monthly payments that increased from $15,458 to $18,623 over the term of the lease that expired in Fiscal 2009. The Company did not renew the lease.

The Corporation entered into a non-cancelable operating lease with an unrelated party on March 13, 2006 to obtain additional space for its executives and administrative staff. The lease was subsequently modified during 2006 in lieu of a new non-cancelable operating lease for additional office space. The lease commenced in May 2006 and required monthly payments that increased from $13,458 to $14,387 over the term of the lease that expired in Fiscal 2009. The Company did not renew this lease.

The Corporation entered into a non-cancelable operating lease with an unrelated party during Fiscal 2008 to lease additional warehouse space. The lease requires monthly payments that increase from $64,078 to $68,083 over the term of the lease that expires in 2018, with an option to renew for an additional period of five years.

Net rental expense on these operating leases was $1,156,874, $524,271 and $314,917 for the years ended March 31, 2009, 2008 and 2007, respectively.

The following is a schedule of annual future minimum lease payments required under the operating leases with remaining non-cancelable lease terms in excess of one year as of March 31, 2009:

Fiscal Year	Amount
2010	$ 789,533
2011	789,533
2012	789,533
2013	793,536
2014	837,591
Thereafter through 2018	3,280,565
	$ 7,280,291

10. RETIREMENT PLAN

The Corporation maintains a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code. Under this plan, eligible employees are permitted to contribute up to the maximum allowable amount determined by the Internal Revenue Code. The Corporation may make discretionary matching and profit sharing contributions under the provisions of the plan. The Corporation made contributions in the amount of $172,675, $152,483 and $72,876 for the years ended March 31, 2009, 2008 and 2007, respectively.

11. CONCENTRATIONS AND COMMITMENTS

Major Customers

Shipments to three wholesalers, Amerisource-Bergen Corporation, McKesson Corporation and Cardinal Health, accounted for approximately 45% of net revenues for the year ended March 31, 2009. The approximate percentage of net revenues attributable to each of these wholesalers is 9%, 16% and 20%, respectively. Shipments to Amerisource-Bergen Corporation, McKesson Corporation and Cardinal Health accounted for approximately 57% and 58% of net revenues for the years ended March 31, 2008 and 2007, respectively, or 8%, 28% and 21% for Fiscal 2008 and 11%, 30% and 17% for Fiscal 2007, respectively. Balances due from these customers represented approximately 47% and 66% of gross accounts receivable at March 31, 2009 and 2008, respectively. As is typical in the US retail sector, many of Corporation's customers are serviced through their designated wholesalers. Of the net sales made to wholesalers, the majority of these include sales for various customers of the Corporation that have underlying direct contracts with the Company that are facilitated through such wholesale customers. This includes sales to the Veterans Administration, an agency of the United States Government. The Company's contracts with the Veterans Administration have expired,

and due to the Company's recent product recalls and status with the FDA, the Veterans Administration has not renewed the contracts. Once the Company has resolved its current issues with the FDA, it may regain this business when these contracts come up for renewal, which occurs on an annual basis. No other single customer accounted for more than 10% of net sales for Fiscal 2009 or Fiscal 2008. The loss of any of these customers could have a materially adverse effect on short-term operating results.

Major Products

Shipments of three products, accounted for 57% of net revenue for the year ended March 31, 2009. Two products and four products accounted for approximately 55% of net revenue for the year ended March 31, 2008 and 69% of net revenue for the year ended March 31, 2007, respectively.

Approximately 69%, 66% and 79% of raw material purchases for the years ended March 31, 2009, 2008 and 2007, respectively, were made from Sun Pharma. The Corporation, however, believes that other sources of raw materials are available. The Corporation currently purchases 27 active pharmaceutical ingredients from Sun Pharma and 63 from other third parties.

Labor Contract

A union represents substantially all of the Company's permanent, full-time and regular part-time hourly employees. In September 2008, the Company successfully negotiated a new four-year collective bargaining agreement with the union. This agreement sets forth minimum wage increases and growth opportunities which the union employees will be eligible for in each of the next four years, thereby giving the Company and the union employees, the Company believes, a measure of certainty and stability. The collective bargaining agreement with the union is set to expire in September 2012, whereupon the Corporation and the union expect to enter into a new agreement.

12. OTHER MATTERS

Employment Contracts

The Corporation has employment agreements with three of its executive officers that provide for fixed annual salaries and at least a six-month continuance including insurance benefits and immediate vesting of common stock options upon termination without cause.

Litigation

While it is not possible to determine with any degree of certainty the ultimate outcome of the following legal proceedings, the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position. An adverse outcome in any of these proceedings could have a material adverse effect on the Company's financial position and results of operations.

As previously disclosed, on September 29, 2006, Schering Corporation ("Schering") filed a complaint in the United States District Court for the District of New Jersey ("the New Jersey action"). A nearly identical complaint was filed on October 5, 2006, in the Eastern District of Michigan ("the Michigan action"). Both complaints allege, inter alia, that Sun Pharmaceutical Industries Ltd's ("Sun") filing of an ANDA seeking approval to market its generic version of Schering's Clarinex® (desloratadine) drug product infringed Schering's U.S. Patent No. 6,100,274 ("the '274 patent"), which expires July 7, 2019. Schering further alleges that the Company either directly infringed the '274 patent by aiding in the filing of Sun's ANDA, or will induce others to infringe by marketing and/or selling Sun's generic version of Clarinex® upon receiving FDA approval. Schering's complaint seeks an order from the Court which, among other things, directs the FDA not to approve Sun's ANDA any earlier than the claimed expiration date. On August 17, 2007, the New Jersey action was consolidated with other patent infringement cases filed by Schering against other ANDA filers for Schering's Clarinex® drug product, while the Michigan action was stayed pending the outcome of the New Jersey action. The ANDA filed by Sun contains a Paragraph IV certification challenging the '274 patent. Sun believes that the '274 patent is invalid, unenforceable and/or will not be infringed by Sun's or the Company's manufacture, use or sale of the product. Sun further believes it is one of several first generics to file a Paragraph IV certification for this drug product. Sun and the Company reached an agreement with Schering dismissing this litigation without prejudice.

Schering filed an additional complaint in the District of New Jersey on November 14, 2008 alleging that Sun's filing of an ANDA seeking approval to market its generic version of Schering's Clarinex® drug product infringed Schering's U.S. Patent No. 7,405,223 ("the '223 patent"), which issued on July 29, 2008 and expires January 7, 2020 (with pediatric exclusivity). Schering further alleges that the Company either directly infringed the '223 patent by aiding in the filing of Sun's ANDA, or will induce others to infringe by marketing and/or selling Sun's generic version of Clarinex® upon receiving FDA approval. Schering's complaint seeks an order from the Court which, among other things, directs the FDA not to approve Sun's ANDA any earlier than the claimed expiration date. On December 12, 2008 the '223 action was consolidated with another patent infringement case brought by Schering against Orgenus Pharma Inc. and Orchid Chemicals & Pharmaceuticals, Ltd. Sun believes that the '223 patent is invalid, unenforceable and/or will not be infringed by Sun's or the Company's manufacture, use or sale of the product.

On January 15, 2009, the Company, Sun, and Schering reached a settlement agreement as to all pending actions involving the '274 and '223 patents. The District of New Jersey subsequently entered orders dismissing Schering's claims against Sun and the Company with respect to the '274 patent on February 13, 2009 and with respect to the '223 patent on March 16, 2009. The settlement agreement and proposed license agreement have been submitted to the United States Federal Trade Commission ("FTC") and Department of Justice ("DOJ") pursuant to Section 1112(a) of the Medicare Prescription Drug, Improvement, and Modernization Act.

As previously disclosed, on June 9, 2005, Novo Nordisk A/S and Novo Nordisk, Inc. ("Novo Nordisk") filed a complaint in the United States District Court for the Eastern District of Michigan alleging that the Company's filing of an ANDA seeking approval to market its generic version of Novo Nordisk's Prandin® (repaglinide) drug product infringed Novo Nordisk's U.S. Patent No. 6,677,358. Novo Nordisk seeks an order from the Court which, among other things, directs the FDA not to approve the Company's ANDA any earlier than the claimed expiration date. The ANDA filed by the Company contains a Paragraph IV certification challenging the Novo Nordisk patent as well as a viii statement with regard to the patent's method claim. The Company believes that this Novo Nordisk patent is invalid and/or will not be infringed by the Company's manufacture, use or sale of the product. The Company believes that it is the first to file an ANDA with a Paragraph IV certification for this drug product and it intends to defend this action vigorously to capitalize on the potential for obtaining 180 days exclusivity available for this product. The Company has filed motions for summary judgment of patent invalidity and non-infringement, both of which are pending. Caraco has also sought leave to supplement its answer and counterclaims to challenge a recent Orange Book use code amendment by Novo Nordisk in reference to Prandin®. Trial is scheduled for September 21, 2009.

As previously disclosed, on July 10, 2006, Forest Laboratories, Inc., Forest Laboratories Holdings, Ltd., and H. Lundbeck A/S (collectively, "Forest") filed a complaint in the United States District Court for the Eastern District of Michigan alleging that the Company's filing of an ANDA seeking approval to market its generic version of Forest's Lexapro® (escitalopram oxalate) drug product infringed Forest's Patent No. Re. 34,712, which is set to expire on September 13, 2011 based on a patent term extension (extended to March 14, 2012 based upon a six month pediatric exclusivity). Forest seeks an order from the court which, among other things, directs the FDA not to approve the Company's ANDA any earlier than the claimed expiration date. The ANDA filed by the Company contains Paragraph IV Certifications challenging Forest's Patent Nos. Re. 34,712 ("the '712 patent"), as well as two other patents, the 6,916,941 ("the '941 patent") and 7,420,069 ("the '069 patent"). The Company believes that it does not infringe any valid claims of the '712, '941 and '069 patents by the Company's manufacture, use or sale of the product. Forest's suit alleges only that Caraco infringes the '712 patent, which the Company intends to vigorously defend. Sun Pharmaceutical Industries Limited, the parent corporation of Caraco, is also a party to the case. Trial in the case, which was originally scheduled for April 2009, was adjourned through at least June 16, 2009. A new trial date has not been set.

Forest did not assert the '941 patent or '069 patent against Caraco. On February 20, 2007, Caraco brought a declaratory judgment action in the Eastern District of Michigan court against Forest seeking a declaration that its generic version of Lexapro® will not infringe the '941 patent. On April 13, 2007, Forest granted Caraco a covenant not to sue on the '941 patent, and the court, in May 2007, dismissed the case for lack of a controversy. Caraco filed a notice of appeal of that dismissal on June 8, 2007 before the U.S. Court of Appeals for the Federal Circuit. On April 1, 2008, the Federal Circuit granted Caraco's appeal, holding that an actual case or controversy did exist and that Caraco should be

allowed to maintain its declaratory judgment action regarding the '941 patent. Forest's request for a rehearing of Caraco's appeal *en banc* was denied. Forest filed a petition for a writ of certiorari to challenge this decision with the Supreme Court, which was also denied. On January 26, 2009, Caraco brought a similar declaratory judgment action in the Eastern District of Michigan court against Forest seeking a declaration that its generic version of Lexapro® will not infringe the '069 patent, a related patent newly obtained by Forest in September of 2008. The '941 and '069 cases are currently in discovery; both are expected to go to trial in late 2009.

As previously disclosed, on September 22, 2004, Ortho-McNeil Pharmaceutical, Inc. ("Ortho-McNeil") filed a complaint in the United States District Court for the Eastern District of Michigan alleging that the Company's filing of an ANDA seeking approval to market its generic version of Ortho-McNeil's Ultracet® brand tramadol/acetaminophen drug product infringed Ortho-McNeil's patent, which expires on September 6, 2011. Ortho-McNeil sought an order from the district court which, among other things, directed the FDA not to approve the Company's ANDA any earlier than the claimed expiration date. The ANDA filed by the Company contains a Paragraph IV Certification challenging the Ortho-McNeil patent. The Company asserted that the Ortho-McNeil patent is invalid and/or will not be infringed by the Company's manufacture, use or sale of the product. Since filing this action, Ortho-McNeil authorized a generic manufacturer to provide a generic version of Ortho-McNeil's Ultracet® product while another manufacturer launched its approved generic at risk. On October 19, 2005, the Company's motion for summary judgment was granted. On December 19, 2005, the FDA approved the manufacture, use and sale of the Company's generic product. Ortho-McNeil filed an appeal of the finding of noninfringement by the district court with the United States Court of Appeals for the Federal Circuit. On January 19, 2007, the United States Court of Appeals for the Federal Circuit affirmed the lower court's decision granting the Company's motion for summary judgment.

Additionally, the United States Patent and Trademark Office approved Ortho-McNeil's request for a reissue patent. Although the district court had determined that the Company does not infringe Ortho-McNeil's original patent, on July 31, 2006, Ortho-McNeil filed a lawsuit against the Company in the United States District Court for the District of New Jersey, alleging that the Company's generic version of Ultracet® brand tramadol/acetaminophen drug product infringes its reissue patent. On September 26, 2006, the Company filed an answer denying, among other things, that its generic product infringes any valid claims of Ortho-McNeil's reissue patent. On December 10, 2007, the Company filed a motion for summary judgment that the asserted claims of the reissue patent were obvious and therefore invalid as a matter of law. This motion was granted by Judge Cavanaugh of the District of New Jersey on April 17, 2008. Final judgment has been granted. On August 25, 2008, Ortho-McNeil filed a notice of appeal with respect to that judgment with the United States Court of Appeals for the Federal Circuit. The appeal has been fully briefed and is scheduled for oral argument on July 7, 2009.

On February 24, 2009, MedImmune LLC filed a complaint against the Company and Sun in the United States District Court for the District of Maryland. The complaint alleges

that Caraco has willfully infringed U.S. Patent Nos. 5,424,471 and 5,591,731 by offering to sell or selling a generic version of the drug Ethyol® in the United States. The complaint seeks trebled damages. The Company denies infringement and contends that the patents in suit are invalid and unenforceable. The Complaint is related to *MedImmune Oncology, Inc. v. Sun Pharmaceuticals Industries Ltd.*, 1:04-cv-02612-MJG, which is pending in the District of Maryland and involves the same patents. A trial in the related action is scheduled to begin September 30, 2009.

On May 5, 2009, Wyeth filed a complaint against the Company and Sun Pharma in the United States District Court for the Eastern District of Michigan. The complaint alleges that the package insert for Sun Pharma's product that is distributed by the Company and which is a generic version of Wyeth's Protonix® (pantoprazole) pharmaceutical product contains false and misleading statements regarding the active ingredient of that product in violation of federal and state laws. The complaint requests damages, injunctive relief and attorney's fees and costs. The Company and Sun Pharma believe that they have not engaged in any improper conduct and intend to vigorously contest these allegations.

The Company is also involved in certain other legal proceedings from time to time incidental to normal business activities. While the outcome of any such proceedings cannot be accurately predicted, the Company does not believe the ultimate resolution of any existing matters would have a material adverse effect on its financial position or results of operations.

Product Liability and Insurance

The Corporation currently maintains general and product liability insurance, with coverage limits of $10 million per incident and in the aggregate. The Corporation's insurance policies provide coverage on a claim made basis and are subject to annual renewal. Such insurance may not be available in the future on acceptable terms or at all. There can be no assurance that the coverage limits of such policies will be adequate to cover the Corporation's liabilities, should they occur.

Royalty Accrual

Pursuant to the Strategic Alliance Stock Options Agreement (See Note 8), Caraco received the formulation for one product, Metoprolol Tartrate, in March 1995. However, Caraco has determined that the formula provided to it with respect to Metoprolol Tartrate is different than the formula submitted in an ANDA to the FDA in 1995, approved by the FDA in 1996 and manufactured and introduced by Caraco since 1997. The Corporation has accrued royalties of approximately $1 million, which is included with accrued expenses in the accompanying balance sheets at March 31, 2009 and 2008, and since April 2003, has discontinued to accrue royalties related to this agreement.

Product Development

The Corporation, during the year ended March 31, 2007, entered into three definitive agreements with different companies to develop four products. These agreements contain, for three products, both milestone payments to be paid in cash and profit sharing based upon future sales for a defined period, and for one product, only milestone payments in cash without any obligation to share profits in the future. During Fiscal 2008, the Corporation signed two definitive agreements for two additional products. These agreements contain for one product, both milestone payments to be paid in cash and profit sharing based upon future sales for a defined period, and for one product, only milestone payments in cash without any obligation to share profits in the future. However, the Company terminated an agreement earlier entered into with one company for two of these products. During Fiscal 2009, the Company entered into one agreement for one additional product, and subsequent to end of Fiscal 2009, the Company entered into one more agreement relating to one additional product. This brings the total number of products being developed by unaffiliated third party developers to six. The events that would trigger these payments include signing the agreement, transfer of technology, passing the bio-equivalency study, filing the ANDA, approval of the ANDA, and commercial launch of the product. Approximately $83,000, $200,000 and $161,000 in milestone payments were made in Fiscal 2009, Fiscal 2008 and Fiscal 2007, respectively. Collectively, as of March 31, 2009, future milestone payments, assuming all of the conditions are satisfied and not including profit-sharing which cannot be estimated, will amount to approximately $680,000 spread over a period of more than three years.

Regulatory Matters

During Fiscal 2009, the FDA inspected the Company’s manufacturing facility located in Detroit, Michigan and issued a warning letter related to deficiencies noted during their inspection. The FDA has indicated that failure to promptly correct these deficiencies may result in enforcement action or withholding of approvals for pending new drug applications. The Company responded to the warning letter for the deficiencies noted and provided its corrective actions. Subsequently the FDA commenced a follow-up inspection which has since been concluded. Observations were provided to the Company on Form 483. The Company has committed to provide a formal response to the FDA within the stipulated period. Further, the Company voluntarily initiated two recalls, reducing pre–tax income by approximately $4.7 million, that were initiated with the knowledge of the FDA as a precautionary measure in conjunction with the ongoing inspections.

13. SEGMENT INFORMATION

The Company operates in two reportable segments that are for products that it manufactures on its own, as well as those distributed on behalf of Sun Pharma under various agreements. The sales and gross profits earned on these categories of products are as follows:

	Year Ended March 31, 2009		Year Ended March 31, 2008		Year Ended March 31, 2007	
Category	Sales	Gross Profit	Sales	Gross Profit	Sales	Gross Profit
Manufactured Products	$ 111,754,209	$ 48,132,508	$ 125,251,055	$ 61,342,641	$ 112,467,447	$ 56,426,473
Distributed Products	225,423,273	19,662,047	225,115,634	23,372,509	4,559,569	1,357,685
Total	$ 337,177,482	$ 67,794,555	$ 350,366,689	$ 84,715,150	$ 117,027,016	$ 57,784,158

The Corporation is primarily in the business of manufacturing, developing, selling and distributing various therapeutic classes of solid oral dosage of generic pharmaceuticals. There are no separate management teams or individuals assigned to a product or products or therapeutic classes of products, no separate allocation of funds or resources to distinct product or products or therapeutic classes or products, and the performance of any individual product or products or therapeutic classes of products is not separately assessed. The Corporation's revenues are solely based on the receipt of customers' orders.

The Corporation's net sales, grouped by therapeutic categories, for the years ended March 31, 2009, 2008 and March 31, 2007 are as follows:

Therapeutic Category	Net Sales Year Ended March 31, 2009	Net Sales Year Ended March 31, 2008	Net sales Year Ended March 31, 2007
Analgesic	$ 344,920	$ —	$ —
Anorectic	1,757,126	266,230	—
Antiallergic Drugs	2,076,743	2,194,004	—
Antianxiety Drug	3,733,838	4,563,207	4,035,902
Antibiotic	424,934	417,941	506,592
Anticonvulsant	43,013,058	73,850,445	4,293,332
Antidepressant	13,781,861	16,294,454	14,053,823
Antidiabetic	20,162,183	23,394,110	30,056,770
Antiematic	10,978	—	—
Anti-gout	803,505	132,687	—
Antihypertensive Drug/Beta Blocker	20,271,051	22,700,396	19,751,939
Antipsychotic	7,465,342	5,936,243	3,530,898
Antithryoid Agents	735,277	1,568	—
Antitussive	89,451	—	—
Anti Ulcerants	149,583,614	134,735,991	—
Bisphosphonate Derivative	148,843	—	—
Calcium Channel Blocker	9,174,500	7,709,527	—
Cardiac	6,844,618	2,893,926	2,446,608
Decongestants	—	—	62,814
Narcotic Analgesics	156,586	165,860	—
Nonsteroidal Antiinflammatory Agent	4,437,107	3,154,862	2,886,593
Opiate Agonist/Analgesic	28,652,439	38,567,526	31,257,560
Oncology Adjunct	16,839,293	3,816,026	—
Parkinson's Disease	1,110,877	4,227	—
Platelet Aggregation Inhibitor	164,013	211,345	206,185
Sedatives & Hypnotics	883,799	1,642,383	—
Skeletal Muscle Relaxant	3,232,998	3,935,676	2,902,770
Vascular and Migraine Headache Suppressant	1,278,528	3,778,055	1,035,230
Net Sales	**$ 337,177,482**	**$ 350,366,689**	**$ 117,027,016**

* * *

EXHIBIT INDEX

3.01	Registrant's Amended and Restated Articles of Incorporation, as amended. (1)
3.02	Certificate of Amendment to the Articles of Incorporation filed February 13, 1997. (2)
3.03	Certificate of Amendment to the Articles of Incorporation filed February 10, 2000. (3)
3.04	Certificate of Determination of Rights, Privileges and Preferences Series B Preferred Stock. (4)
3.05	Registrant's Amended and Restated Bylaws. (5)
3.06	Certificate of Amendment to Articles of Incorporation filed December 28, 2006 (17)
10.01	Agreement, dated as of October 1, 1993, among Registrant and Non-Affiliate (6)
10.02	Employment Agreement, dated October 22, 1993, of Robert Kurkiewicz. (6)
10.03	Stock Purchase Agreement by and between Caraco Pharmaceutical Laboratories, Ltd. and Sun Pharmaceutical Industries Limited dated as of April 23, 1997. (7)
10.04	Products Agreement by and between Caraco Pharmaceutical Laboratories, Ltd. and Sun Pharmaceutical Industries Limited dated as of April 23, 1997. (7)
10.05	Registration Rights Agreement dated as April 1997. (7)
10.06	Amendment to Employment Agreement of Robert Kurkiewicz dated as of April 1, 1997. (8)
10.07	1999 Equity Participation Plan. (9)
10.08	Renewal to Employment Agreement of Robert Kurkiewicz dated as of January 1, 1999. (3)
10.09	Third Amendment to Employment Agreement of Robert Kurkiewicz dated August 30, 2002. (3)
10.10	Agreement between Caraco and Sun Pharma Global, Inc. dated November 21, 2002. (4)
10.11	Sales contract with government vendor. (4)
10.12	Employment Agreement of Mr. Singh (5)
10.13	Employment Agreement of Mr. Movens (10)
10.14	Confidentiality and Non-Competition Agreement of Dan Movens (10)
10.15	Credit Agreement with JPMorgan Chase Bank, N.A. (12)
10.16	Form of Grant of Employee Stock Option (13)
10.17	Marketing Agreement between Caraco and Sun Pharmaceutical Industries Limited (14)

10.18 Form of Stock Option Agreement – Daniel H. Movens (15)

10.19 Form of Restricted Stock Agreement – Daniel H. Movens (15)

10.20	Distribution and Sale Agreement between Caraco and Sun Pharmaceutical Industries Limited. (16)
10.21	Summary of Oral Agreements between Caraco and Sun Pharmaceutical Industries Limited with respect to certain raw materials and formulations and the acquisition of machinery and equipment. (18)
10.22	2008 Equity Participation Plan (19)
10.23	Loan Agreement with RBS Citizens N.A. (+)
21	Subsidiaries of the Registrant (+)
23.01	Consent of Independent Registered Public Accounting Firm (+)
24.1	Power of Attorney (included on signature page) (+)
31.1	Certificate of Chief Executive Officer (+)
31.2	Certificate of Chief Financial Officer (+)
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (+)

+ Filed herewith

(1) Incorporated by reference from Exhibits to Registrant's Form 10-KSB filed on or about March 30, 1995.

(2) Incorporated by reference from Exhibits to Registrant's Form 10-KSB filed on or about March 31, 1997.

(3) Incorporated by reference from Exhibits to Pre-Effective Amendment No. 1 to Form SB-2 filed on September 4, 2002 as Commission File No. 333-91968.

(4) Incorporated by reference from Exhibits to Registrant's Form 10-KSB filed on or about March 31, 2003,.

(5) Incorporated by reference from Exhibit to Registrant's Form 10-K filed on or about March 15, 2005,.

(6) Incorporated by reference from Exhibits to Registrant's Registration Statement on Form SB-2, as amended, filed on November 5, 1993 as Commission File No. 33-71398C.

(7) Incorporated by reference from Exhibits to Registrant's Form 10-QSB filed on November 14, 1997 as.

(8) Incorporated by reference from Exhibits to Registrant's Form 10-KSB filed on or about March 31, 1998, as.

(9) Incorporated by reference from Appendix A to Registrant's Proxy Statement dated April 28, 1999 as.

(10) Incorporated by reference from Exhibits to Registrant's Form 10-K/A filed on or about May 2, 2005,.

(11) Incorporated by reference from Exhibits to Registrant's Form 8-K filed on or about August 25, 2005.

(12) Incorporated by reference from Exhibits to Registrant's Form 10-Q filed on or about January 26, 2006.

(13) Incorporated by reference from Exhibits to Registrant's Form 10-K filed on or about June 14, 2006.

(14) Incorporated by reference from Exhibits to Registrant's Form 8-K/A filed on or about November 5, 2007.

(15) Incorporated by reference from Exhibits to Registrant's Form 10-Q filed on or about October 25, 2007.

(16) Incorporated by reference from Exhibits to Registrant's Form 8-K filed on or about January 31, 2008.

(17) Incorporated by reference from Exhibits to Registrant's For S-8 filed on April 7, 2009.

(18) Incorporated by reference from Exhibits to Registrant's Form 10-K filed on June 10, 2008.

(19) Incorporated by reference from Exhibits to Registrant's Proxy Statement filed on July 29, 2008.